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VOITH

2021 Annual Report

Voith at a Glance

in € millions	2019/20	2020/21
Orders received	4,036	5,016
Sales	4,173	4,260
EBIT adjusted[1)]	139	165
Return on sales in %	3.3	3.9
Result before taxes from continuing operations	73	80
Net result	6	1
Cash flow from operating activities	234	144
Total cash flow	200	-89
Investments	131	127
Research and development	189	192
in % of sales	4.5	4.5
Equity	1,083	1,015
Equity ratio in %	20.8	19.8
Balance sheet total	5,217	5,114
Employees[2)]	20,634	19,918

1) For more information, see section “Notes on segment reporting” in the notes to the financial statements.
2) Full-time equivalents; without apprentices; as at September 30.

Annual Report 2021

Group

Group Management Report

Consolidated Financial Statements

Group

Page

Ladies and gentlemen,
dear business partners of the Voith Group,

With the present report, we are looking back on a 2020/21 fiscal year that was a real challenge for Voith – just as it was for many other companies across all sectors. I don't think it would be exaggerating to say that the Covid-19 pandemic with its wide-ranging impact, both direct and indirect, on economic activities around the globe can be seen as the ultimate stress test. So I am all the more pleased that Voith has passed this stress test well to date. And there's more: we are confident that we will come out of this crisis stronger than before.

For this, we can thank our established market position in all three Group Divisions, our broad sectoral and geographical diversification, and the great dedication on the part of the entire Voith team. Under exceedingly difficult conditions, they once again gave everything to offset the impact of the crisis. Over and above this, we are also benefiting from the strategic decisions that Voith had already taken prior to the pandemic: this is manifested in particular in the strong level of orders received

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Dr. Toralf Haag

that we recorded in the reporting year. This is not least attributable to the consistent alignment of our activities to industrial sustainability, both in the expansion of our core business and in the exploration of new business segments.

Further important strategic decisions included the structural improvement of our earnings power and the securing of our liquidity over the long term. This was the basis that allowed us to continue investing even over the two fiscal years negatively impacted by the pandemic, 2019/20 and 2020/21: in research and development, in business acquisitions and in the ongoing development of our company. By doing so, we have put ourselves into an even better starting position to achieve sustainable and profitable growth over the coming years.

In this respect, the long-term megatrends are playing into our hands. The Covid-19 pandemic further accelerated the digitalization of all areas of life. At the same time, there is an increasing awareness that overcoming the climate crisis is mankind's greatest challenge. The World Climate Summit in Glasgow recently showed once again that climate neutrality is a social and economic imperative, but it is often a long way from insight to action. It is encouraging, however, that more and more governments are setting climate objectives and committing themselves to concrete measures. In the business world, too, it is impossible to oversee the progress being made with the transformation towards climate neutrality, a huge but necessary task. Companies around the world must set the right course today by investing in sustainable technologies. Firstly, in order to secure important competitive advantages on the global markets with innovative products and with highly efficient digitalized production; secondly, to meet regulatory requirements.

Voith is addressing this challenge with the necessary determination – because we intend to fulfill our responsibility to make a contribution to society with all our skills and expertise. And also because we intend to make use of the immense opportunities that decarbonization and digitalization – and in specific applications, often a combination of both – offer our company. With sustainable technologies and digital solutions, we will become carbon-neutral in our own operations in the coming year

“With sustainable technologies and digital solutions, we will become carbon-neutral in our own operations in the coming year and are already assisting customers with their transformation. By doing so, we want to be a trailblazer and pioneer for an industry in the post-carbon age”.

Dr. Toralf Haag

and are already assisting customers with their transformation. By doing so, we want to be a trailblazer and pioneer for an industry in the post-carbon age. Voith has also been able to make progress with its ESG rating, and is one of the three best companies in the mechanical and plant engineering industry worldwide.

The 2020/21 fiscal year constituted an important step along this path. It was not only the year of transition before a sweeping economic recovery picks up speed and momentum, as generally hoped. For Voith, it was in fact a year in which we demonstrated the robustness of our diversified positioning and the resilience of our business model – in an environment characterized by disrupted supply chains and massive increases in raw material prices. It was also a year in which we integrated the substantial acquisitions of the recent past, gradually leveraging the economic potential they offer for our Group. It was important and right to make the acquisitions and they are increasingly paying off. And last but not least, 2020/21 was a fiscal year in which we continued to make good progress both in the implementation of our strategy and in the operating business.

This is reflected in the development of the key figures. We achieved our Group forecasts for the past fiscal year, even surpassing them in some cases. The latter is especially true of orders received. In a year-on-year comparison, it rose by just under a quarter, thus reaching a level that has not been seen for almost a decade. Orders on hand, which translate into the sales of tomorrow and the day after, are at an all-time high.

We succeeded in achieving a slight rise in Group sales, which also benefited from the acquisitions. We have thus almost made up for the losses seen in the previous year that had already been negatively impacted by Covid-19. EBIT and return on sales have increased. Bottom line, there remains a slightly positive Group net result. We are nevertheless aware that we still have a lot of work to do with regard to profitability. Alongside the expected growth in the operating business, this is a matter of boosting efficiency by further optimizing structures and processes. For this reason, it remains an ongoing task we will continue addressing in the future.

The financial position of the Voith Group remains comfortable. The cash flow from operating activities was highly positive in the reporting year and, on a net basis, Voith still has no debt. This gives us the leeway to continue investing in growth in the future. In doing so, we are placing an emphasis on leveraging our potential in our core businesses – as demonstrated most recently by the announced acquisition of Siemens Energy's minority share in Voith Hydro. Moreover, it is a matter of tapping into new markets and business segments in adjacent areas in which we can provide real added value with our expertise. The production and use of hydrogen, for example, will be a central topic for Voith. As an energy source of the future, green hydrogen will play a key role in the decarbonization of industrial societies. For this reason, Voith is reinforcing its efforts in all relevant areas of the hydrogen supply chain. We will be able to do so from our own resources; we are, however, also reviewing other strategic options in this area.

Undoubtedly, Voith still has great growth potential. We will be able to show this more clearly over the coming years than was possible in the crisis years. We assume that the commencing 2021/22 fiscal year will already be a year of growth for Voith – with an increase in sales and in the operating result.

Beyond the year 2022, we anticipate a phase of sustained, profitable growth. By consistently leveraging the potential of our core business and tapping into new fields of application in the sustainability segment, we are going to make a decisive contribution in many places to a climate-neutral industrial society. At the same time, we are seizing the entrepreneurial opportunity it holds – in an active, innovative and customer-oriented manner.

My thanks go out most of all to our employees for their great dedication, perseverance and positive attitude.

Sincerely yours,

Toralf Haag

Dr. Toralf Haag
President & CEO

Dr. Toralf Haag
President and CEO

Egon Krätschmer
Finance and Controlling

Dr. Stefan Kampmann
Innovation & Technology

Andreas Endters
Voith Paper

Uwe Wehnhardt
Voith Hydro

Cornelius Weitzmann
Voith Turbo

(from top left to bottom right)

The Corporate Board of Management






Report of the Supervisory Board for the 2020/21 Fiscal Year

Ladies and gentlemen,

In Voith's 2020/21 fiscal year, the second year impacted by the Covid-19 pandemic, the world was still in a state of emergency. The measures aimed at containing the pandemic – travel limitations around the world, new rounds of lockdowns and contact restrictions in many places – placed a burden on global supply chains and on the whole impeded the recovery of the world economy. Consequently, the 2020/21 fiscal year was once again a year of intense crisis management for Voith. Highest priority was given in this context to protecting in the best possible way the people who work at and with Voith and to maintaining the usual dependability in our services to customers under pandemic conditions. The Company countered supply bottlenecks for raw materials and components as well as rising logistics costs as a consequence of the pandemic with further diversification and localization of the supply chains.

Thanks to successful crisis management, its broad sectoral and geographical positioning, regional supply chains and a sound balance sheet, Voith has come through the crisis in better shape in the past fiscal year than was to be expected at the beginning of the pandemic: the declines in sales in 2019/20, the first year of the crisis, were limited in scope and were almost fully recouped before the end of the reporting year. Thanks to an excellent level of orders received in the past fiscal year, up on the pre-crisis level, orders on hand are at an all-time high. Only in terms of net result is the Company down on the pre-crisis level. At no stage in the period overshadowed by the Covid-19 pandemic has there been any danger of a liquidity crunch. The cash flow continued to improve in the reporting year and the balance sheet remains sound.

The good financial and liquidity position provides Voith with sufficient leeway to invest in its future and to advance important strategic topics: Voith is constantly further expanding its core business, also boosted by targeted business acquisitions and, in doing so, places a focus on the high-margin service and spare parts market and on digital and sustainable solutions. Another important component in Voith's strategy is tapping into forward-looking business segments and markets that promote climate-neutrality, such as electrical drive systems, hydrogen technology, energy storage or cargo rail. All around the world, society has recognized that overcoming the climate crisis constitutes an even greater challenge than combating the pandemic. At the same time, the associated transformation of industry offers huge growth opportunities for companies such as Voith that develop sustainable solutions and technology for an industry in the post-carbon age.

Oversight activities of the Supervisory Board

The Board of Management of the personally liable general partner, Voith Management GmbH, reported to the Supervisory Board regularly, promptly and comprehensively on issues such as the current business position and financial position of the Group and its Group Divisions, and on its business planning, including financial and personnel planning, on the corporate strategy, as well as on significant transactions. These reports also presented investments and any risks to the Company as well as compliance issues and the sales and earnings situation of the Group and its business units.

The Supervisory Board held four regular meetings in the reporting year. On account of the Covid-19-related restrictions, some of the members attended the meetings by means of video and telephone conferencing. Between meetings, there was a regular exchange of information between the Chairman of the Supervisory Board and the Board of Management of the personally liable general partner, Voith Management GmbH. The other members of the Supervisory Board were regularly informed about the most important points arising from this exchange of information at the subsequent meeting.

The Supervisory Board meetings were held on October 9, 2020, December 8, 2020, March 26, 2021 and on June 11, 2021. All Supervisory Board members attended at least half of the Supervisory Board meetings.

The focus of the first meeting in the reporting year on October 9, 2020 was on discussing the preliminary business figures for the 2019/20 fiscal year just ended, on the planning for the 2020/21 and 2021/22 fiscal years, and the Group's financial, investment and personnel planning. In addition, the Supervisory Board addressed issues of artificial intelligence.

At the second meeting of the Supervisory Board on December 8, 2020, the Supervisory Board approved the financial statements and the management report of Voith GmbH & Co. KGaA for the 2019/20 fiscal year and the consolidated financial statements and the Group management report in line with the resolution recommended by the Audit Committee, following the necessary deliberation; at this meeting the Supervisory Board furthermore proposed that the general meeting approve the financial statements and passed resolutions making proposals to the general meeting on the appropriation of the unappropriated retained earnings and on the election of the independent auditor. The general meeting held the same day approved the financial statements as proposed and, in all other respects, passed resolutions in accordance with the aforementioned proposals.

At its meeting of March 26, 2021, the Supervisory Board dealt with business development over the first quarter of the 2020/21 fiscal year and the outlook for the full 2020/21 fiscal year. Over and above this, the Supervisory Board was provided with information on the upcoming changes relating to the German Act on Equal Participation of Women and Men in Leadership Positions in the Private and the Public Sector (FüPoG) and on diversity and inclusion at Voith, as well as addressing Voith's technology portfolio.

At its last meeting in the reporting year on June 11, 2021, the Board of Management of the personally liable general partner presented a report to the Supervisory Board on the first half of the fiscal year and on expectations for the full 2020/21 fiscal year. Furthermore, the Supervisory Board was informed about the topics of corporate culture and leadership at Voith.

There was no indication of any conflicts of interest in the Supervisory Board.

Report on the work of the committees

The Company's Supervisory Board has formed an Audit Committee and a Nomination Committee. There were no further committees in the reporting year. On account of the Covid-19-related restrictions, some of the members of the Audit Committee attended the meetings on October 8, 2020, on December 7, 2020 and on June 10, 2021 via video and telephone links. The Nomination Committee did not meet in the reporting year.

The Audit Committee held each of its meetings in the presence of the responsible audit partner from the auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Munich. At its meetings on October 8, 2020 and December 7, 2020, the Audit Committee addressed in particular the 2019/20 financial statements for the Group and Voith GmbH & Co. KGaA, including the report by the auditor; over and above this, the Audit Committee deliberated on the financial aspects of the 2020/21 planning and issues relating to the effectiveness of the internal control system (ICS) and took receipt of the annual report by the Internal Audit function and a compliance report. At its meeting on June 10, 2021, the Audit Committee addressed in particular the Group's six-month financial statements as at March 31, 2021 and held an in-depth discussion on the impact of the Covid-19 pandemic and the measures taken in its wake as well as issues relating to risk management and compliance.

Change in the Board of Management of the personally liable general partner and on the Supervisory Board

Effective as of December 1, 2020, Dr. Stefan Kampmann was appointed as a member of the Board of Management of the personally liable general partner, Voith Management GmbH, to fill the newly created function of CTO.

With the consent of the shareholders, Dr. Uwe Knotzer stepped down and resigned as member of the Board of Management of the personally liable general partner, Voith Management GmbH, thus leaving Voith Management GmbH as of May 31, 2021.

The Supervisory Board would like to thank Dr. Knotzer for his many years of successful work and his great dedication to the ongoing development of the Group Division Voith Turbo and, previously, the Group Division Voith Paper. The Supervisory Board wishes Dr. Knotzer all the best for the future.

Mr. Cornelius Weitzmann was appointed as his successor on the Board of Management of the personally liable general partner, Voith Management GmbH, assuming responsibility for the Group Division Voith Turbo, effective as of June 1, 2021. Previously, Mr. Weitzmann headed the division Mobility in the Group Division Voith Turbo.

At its meeting on October 9, 2020, the Supervisory Board elected Mr. Ralf Willeck as Deputy Chairman of the Supervisory Board to succeed Mr. Gerd Schaible who, as already mentioned in last year's Report of the Supervisory Board, resigned from his office as of September 30, 2020. As likewise already stated in the Report of the Supervisory Board for last year, Alexander Schlotz succeeded Ms. Ute Schurr on the Supervisory Board as the elected substitute member pursuant to Sec. 14 (2) German Codetermination Act (MitbestG), effective as of October 1, 2020, for the remaining term of office of Ms. Schurr, following her resignation, effective as of September 30, 2020.

KPMG Wirtschaftsprüfungsgesellschaft, Munich, was appointed auditor of the financial statements for the 2020/21 fiscal year at the general meeting on December 8, 2020. The Supervisory Board accordingly engaged the independent auditor.

The general meeting of Voith GmbH & Co. KGaA held on December 8, 2020 exonerated the personally liable general partner and the Supervisory Board for their activities in the 2019/20 fiscal year.

2020/21 financial statements

The auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, examined and granted its unqualified audit opinion on the accounting records, the annual financial statements and the management report of Voith GmbH & Co. KGaA and the consolidated financial statements and the Group management report for the Voith Group as at September 30, 2021. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

At its meeting on December 6, 2021, the Audit Committee examined in depth the annual financial statements of Voith GmbH & Co. KGaA and the Group as well as the respective management reports. The responsible audit partner from KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, took part in the meeting of the Audit Committee held on December 6, 2021; at this meeting he reported on the material results of the audit and provided additional information. At its meeting on December 7, 2021, in which the responsible audit partner from KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, also took part, the Supervisory Board performed an in-depth examination of the financial statements, the consolidated financial statements and the management reports of its own, that did not give rise to any objections; the Supervisory Board agreed with the results of the audit on the part of the auditor and approved the financial statements and the consolidated financial statements in accordance with the recommendation of the Audit Committee. The financial statements of Voith GmbH & Co. KGaA were then approved by a resolution of the general meeting on December 7, 2021, with the approval of the personally liable general partner. Furthermore, at its meeting on December 7, 2021, the Supervisory Board followed the proposal of the personally liable general partner made to the general meeting relating to the appropriation of the unappropriated retained earnings.

Finally, the Supervisory Board would like to thank the Board of Management of Voith Management GmbH as the personally liable general partner of Voith GmbH & Co. KGaA, the respective management boards of the subsidiaries and the representatives of the workforce for their prudent crisis management and their successful work in this challenging fiscal year. But our thanks go out especially to all employees: With their dedication and flexibility, they made a substantial contribution to Voith's ability to endure the crisis well in the past fiscal year.

Heidenheim, December 2021

Chairman of the Supervisory Board

Prof. Dr.-Ing. Siegfried Russwurm

The Supervisory Board

Prof. Dr.-Ing. Siegfried Russwurm
Chairman of the Voith GmbH & Co. KGaA
Supervisory Board and
Chairman of the Voith Management GmbH
Shareholders' Committee

Ralf Willeck*
Deputy Chairman,
First Authorized Representative
of the Metal Workers' Union (IG Metall),
Heidenheim

Walter Beraus*
Secretary of the Metal Workers' Union
(IG Metall), Regional Organization
Baden-Württemberg

Johannes Hammacher
Member of the Executive Board of
JMV Management und Verwaltungs SE

Constanze Hufenbecher
Member of the Board of Management of
Infineon Technology AG

Dr. Norbert Kloppenburg
Former Member of the Board of Management
of Kreditanstalt für Wiederaufbau

Klaus Lehleiter*
University-qualified engineer
J.M. Voith SE & Co. KG

Dr. Hubert Lienhard
Former President and CEO
of Voith Management GmbH

Thomas Martin*
Innovation Manager Voith Paper
J.M. Voith SE & Co. KG

Gerd Schaible*
Head of Office of the Corporate
Works Council of
Voith GmbH & Co. KGaA

Martin Schily
Member of the Executive Board
of JMV Management und Verwaltungs SE

Alexander Schlotz*
Chairman of the Corporate and
Joint Works Council

* Elected by the employees.

Group Management Report

I. Background

I.1. Group structure and business activities

Family-owned, global technology group

The Voith Group is a global technology company. With its broad portfolio of systems, products, services and digital applications, Voith sets standards in the markets for energy, oil & gas, paper, raw materials and transport & automotive. With locations in over 60 countries, Voith operates around the globe, maintaining an extensive network of production, service and sales units on every continent on the planet.

Voith GmbH & Co. KGaA, based in Heidenheim an der Brenz, Germany, is the operative head organization and parent company of the Group. The central functions are also performed here.

The Board of Management of Voith Management GmbH is responsible for the strategy and operative management of the Voith Group. Voith Management GmbH, which like Voith GmbH & Co. KGaA, is 100 % family-owned, is the personally liable general partner of and manages the business of Voith GmbH & Co. KGaA. The Board of Management of Voith Management GmbH is appointed by the Voith Management GmbH Shareholders' Committee. Oversight of Voith GmbH & Co. KGaA is exercised by the Supervisory Board.

The operating business is structured into three Group Divisions: Hydro, Paper and Turbo. These Group Divisions are managed separately and their respective business results are presented transparently as part of the segment reporting.

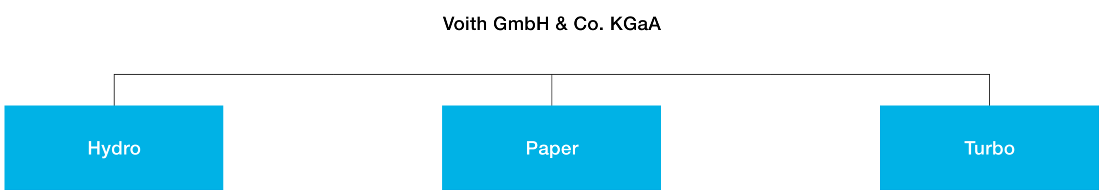
The Group Division Hydro is a leading full-line supplier and trusted partner for equipping hydropower plants. Voith Hydro develops customized, long-term solutions and services for large and small hydropower plants all over the world. Its portfolio of products and services covers the entire life cycle and all major components for large and small hydropower plants, from generators, turbines, pumps and automation systems, right through to spare parts, maintenance and training services, and digital solutions for intelligent hydropower generation.

The Group Division Paper is a leading full-line supplier as well as a pioneer in the paper industry. Through constant innovations Voith Paper is continually optimizing the papermaking process and facilitating resource-saving and efficient production.

The Group Division Turbo is a specialist for intelligent drive technology, systems and customized services. With innovative and smart products, Voith Turbo offers highest efficiency and reliability. Customers from highly diverse industries, such as oil & gas, energy, mining and mechanical engineering, ship technology, rail and commercial vehicles, rely on the advanced technologies and digital solutions provided by Voith.

The former Group Division Digital Ventures was assigned to the Group holding company as a cross-divisional function in the reporting year and is no longer managed as a separate Group Division. The tasks formerly performed by Digital Ventures – the development of digital offerings and services for customers, including the venture activities, the digital transformation of the Voith Group itself as well as the Group-wide IT services – will be continued and refined within the newly created central function “Innovation & Technology”. The Group Divisions Hydro, Paper and Turbo remain responsible for the marketing of their own digital offerings and services.

Organizational structure
Voith Group Divisions



I.2. Management system

The key financial performance indicators for the Voith Group are the performance of orders received and sales as well as EBIT (earnings before interest and taxes) and ROCE (return on capital employed).

The internal performance indicator EBIT is based on an operating earnings indicator derived from external financial reporting, the operational result. This figure is determined on the basis of operating activities and is calculated from sales less costs before financial result and income taxes. To calculate EBIT, amortization and depreciation on hidden reserves disclosed within the scope of business combinations, restructuring expenses and other extraordinary expenses are added. For reconciliation to EBIT, the operational result is adjusted for these amounts in order to come to a better assessment of the operating activities for internal control purposes.

For more information on the calculation of ROCE, see the **Notes on segment reporting** section in the notes to the financial statements.

By further adding operating interest income to EBIT, the profit from operations is obtained. We define operating interest income as imputed interest effects on the portion of customer advances that is not used to finance inventories and receivables from customer-specific contracts. ROCE is calculated by bringing this profit from operations and the average capital employed into relation with each other. Capital employed designates the funds tied within the business with a view to generating sales. This essentially comprises property, plant and equipment and net working capital. Calculating the ratio of a performance indicator from the statement of income (profit from operations) to a figure based on the balance sheet (capital employed) is in compliance with generally accepted standards for holistic business management and with value-based management.

The indicators and reports submitted to the Corporate Board of Management of Voith GmbH & Co. KGaA as well as within the Group Divisions and the operating companies are based on these Group performance indicators.

I.3. Group strategy

The basis: Our DNA, our values*

At Voith, business success is defined as a long-term goal. As a family-owned company, Voith understood the importance of the sustainability mindset and of value-driven business long before these concepts became part of the economic debate. In the course of the Company's history covering more than 150 years, this approach has enabled Voith to overcome numerous obstacles, manage in turbulent times and to write industrial history.

Our DNA: Sustainable technologies for future generations.

We develop sustainable technologies to preserve the natural foundation of life for future generations. At the same time we are safeguarding Voith's long-term future. We will achieve this by generating profitable growth to guarantee the stability and financial independence of our company and, at the same time, balancing our business success with our responsibility towards society and the environment.

The way we see ourselves is expressed in our corporate values.

Ambitious:
We embrace challenges and set ambitious goals that enable us to continuously grow both as individuals and as an organization.

Innovative:
We turn ambitious ideas into innovative technology. To do so, we listen attentively, have a close look and think in new ways. This enables us to experience firsthand the way the world and our customers are changing, develop solutions that create value added, and set new standards in our markets.

Reliable:
As Voithians, we constantly strive for the trust of our customers and partners by keeping our promises. This allows us to build productive, long-term relationships.

Fair:
In every interaction, we show respect, sincerity, honesty and modesty. This is not a question of mere compliance with rules and regulations but constitutes our underlying philosophy.

* The content of this section consists of unaudited, voluntary content that was critically read by the independent auditor.

Sustainable:
We are mindful of our responsibility to society and the environment in everything we do. With our technical innovations, we want to make a contribution to growth and prosperity worldwide. As a family-owned company we strive for lasting financial independence.

Our strategy for profitable growth

In the years before the beginning of the global crisis triggered by the Covid-19 pandemic, Voith had made important strategic choices, improved its operating earnings power and also secured its liquidity over the long-term with appropriate funding lines. Our broad sectoral and geographical positioning, the established market position in all three Group Divisions, regional supply chains and a sound balance sheet are important factors that have enabled us to endure the crisis relatively well. In doing so, we made a conscious decision to continue investing even in the two fiscal years, 2019/20 and 2020/21, marked by the global economic crisis: in research and development, business acquisitions and the ongoing development of our company. This enabled Voith to put itself into a good starting position to come out of the crisis not only stronger but to generate sustainable and profitable growth in the future.

The Covid-19 pandemic further accelerated the digitalization of all areas of life. At the same time, there is growing recognition that overcoming the climate crisis constitutes an even greater challenge than combating the pandemic. Governments worldwide have set concrete objectives for reaching carbon neutrality. In this respect, the global economy is facing a tremendous task of transformation. Companies around the world must set the right course today by investing in sustainable technologies – firstly, in order to secure important competitive advantages on the global markets with innovative products and with highly efficient digitalized production and, secondly, to meet regulatory requirements.

The megatrends of decarbonization and digitalization offer immense growth opportunities for Voith. Voith is pushing forward with its own transformation into a climate-neutral company. We have voluntarily committed ourselves to becoming carbon-neutral in our global operations by 2022 and therefore count as one of the pioneers in our industry. And even more importantly: with digital solutions and sustainable technologies we are supporting our customers in their own transformation, acting as a pathfinder for an industry in the post-carbon age.

It is our objective to be a pioneer and performance leader for our customers in our strategic business units. We want to be the first point of call for companies in the market segments we serve and set value-adding standards that benefit our customers. In addition, it is our aspiration to grow more strongly in the specified business units than the relevant market average and, in each case, be one of the largest three providers by sales over the medium term.

On the way to this objective, we are focusing on the following four strategic pillars:

1. Advancing our corporate culture:

Our corporate culture is based on our values. In order to cope with the upheavals in our industries and play an active role in shaping the outcome, we must, however, constantly advance our culture. We want

Information on the new HR competency model and how it is being integrated into our HR instruments can be found in section I.6. **Employees**.

to achieve a stronger market and customer orientation and develop a distinct culture of innovation. To this end, we must reduce hierarchies and bureaucracy and reinforce cooperation. The competencies and skills required for this are described in our new competency model developed in the previous year that has a major influence on the selection and further development of our employees and constitutes the basis for all further HR tools. A key role in cultural change is played by our executive managers, who bring an appropriate way of thinking and working to the Company through their role model function and leadership behavior.

2. Leveraging the potential of our core business:

We are one of the largest and most renowned market participants worldwide in our core business. Building on the technological leadership we hold in many of the market segments we serve, we intend to leverage the full potential of what is today our core business: this, firstly, involves an appreciable expansion of the service and aftermarket business in all three Group Divisions. Secondly, the goal is to technologically refine the core business. In this context, the focus is on environmentally friendly, sustainable solutions that contribute to climate neutrality and resource efficiency, as well as digital, often AI-driven, products and services that boost the efficiency and availability of systems. In this way, we intend to become a pioneer for the sustainable and digital transformation of our customers and markets. In strengthening our core business, we are building not only on our own expertise in the areas of technology, sales, marketing, organization and management but also on targeted acquisitions that supplement our core business in a meaningful way.

Information on our innovation strategy can be found in section I.4. **Research and development**.

3. Exploring future growth markets:

Our strategy also includes a clear commitment to opening up new business segments and markets and investing with a focus on sustainable future technologies. Growth areas we are currently addressing include electrical drive systems, hydrogen technology, energy storage and cargo rail. There are many points of contact for Voith in this context. With our experts, we are working on strategies and concepts, some of which are cross-divisional projects, in order to develop marketable technologies from innovative ideas.

Information on our innovation strategy, particularly with reference to new business segments and markets can be found in section I.4. **Research and development**.

4. Setting up efficient structures and processes:

In order to position Voith as an independent, successful company in the long term and to secure the financial leeway for necessary investments in the future, we must continually increase our productivity and efficiency. For this, we need an organization that is as lean, agile and efficient as possible, as well as demand and customer-oriented structures and processes throughout the Company. Mindful of this objective, several initiatives were launched in the previous year that we followed up in the reporting year: firstly, we restructured manufacturing at the Group Division Turbo in Germany in the 2019/20 and 2020/21 fiscal years as part of the continual optimization of our production network. In this context, production was terminated at individual locations and relocated to other plants in order to generate the associated synergies. Secondly, we implemented an extensive project to streamline the administrative function in the reporting year. Alongside reducing materials and personnel costs, this project aimed at granting the Group Divisions greater entrepreneurial freedom and responsibility and thus achieving greater market orientation. Thirdly, we are working towards standardization and harmonization of our IT landscape. In particular, we are planning to introduce a Group-wide ERP (enterprise resource planning) system that integrates all operating processes on one uniform platform over the next few years. Over the course of the reporting year, we have successfully converted the first divisions to the new system, and further ones will gradually follow. The fact that essential core processes have to be redefined for this purpose makes it a complex, multiyear project. Over and above this, the topics of occupational safety and quality management remain a top priority. High standards in both areas are imperative for achieving excellence in our business operations and generating excellent commercial results.

I.4. Research and development

Innovation as the basis of future business success

Research and development (R&D) has traditionally played a central role at Voith. Ever since the Company was founded, our engineers have been writing history with their inventions in the field of technology. This is reflected in the strong patent base: Voith holds several thousand active patents worldwide and several hundred more are registered each year. Technological expertise and ability to transform this know-how into market-oriented innovations with added value for our customers time and again form the foundation for Voith's strong positioning in the markets and regions we serve.

Information on this organizational change can be found in section I.1. **Group structure and business activities**.

The strategic importance of research and development for Voith as a technology group is also reflected in the "Innovation & Technology" function, which was newly created in the reporting year and is assigned to the Group's holding company at the level of the Corporate Board of Management. The role of the Chief Technology Officer primarily addresses the ongoing technological development of the Group and innovations aimed at tapping into new business segments and markets. For this reason, the former Group Division Digital Ventures was likewise integrated into the new central technology division along with its range of responsibilities.

We consider decarbonization and digitalization of the economy to be an important challenge over the next decade. Consequently, these two megatrends are reflected as central elements in our Group strategy and in our R&D strategy. They point the way for the ongoing technological development of what is today our core business as well as for R&D investments in new business segments and markets.

Information on these two pillars of our Group strategy can be found in section I.3 **Group strategy**.

One important strategic objective for Voith consists of also using existing expertise in the areas of hydropower, paper production, mobility and industrial applications over and above the current product portfolio and, by doing so, tapping into new business segments and markets. We have currently defined four growth areas in this context – electrical drive systems, hydrogen technology, energy storage and cargo rail – which we are refining in strategic workstreams. In each workstream we pursue the objective of developing, in parallel, a business model, a technology and an access to customers with the vision of subsequently achieving economies of scale in the operating business. The workstreams report directly to the Corporate Board of Management. As they operate in an extremely dynamic regulatory and technological environment, they are managed with an agile approach.

One strategic workstream involves the ongoing development of our electrical drives for a wide range of means of transport such as buses, trucks and ships and also for industrial applications. With our innovations in this field, we intend to play a role in the shift from fossil to more sustainable drive solutions and to participate in this growing market.

In order to facilitate the viable deployment of electrical drives in trucks and other heavy-load vehicles, another of our workstreams is working on the use of hydrogen in mobility applications.

In order to cover the rise in energy needs associated with the progressing electrification of our society with renewable energies, it is a question of stabilizing our electricity grids with flexible buffer storage systems. Within the scope of the growth area of energy storage, we are currently focusing on the development of a redox flow battery that makes it possible to stabilize the performance peaks of, for example, solar or wind farms. Compared to other batteries, redox flow technology offers the benefit of slower battery aging which, in turn, makes a longer service life possible. Furthermore, such batteries are non-flammable and contain sustainable materials.

Information on the development status of our CargoFlex automatic freight coupling can be found in section II.4.3. **Voith Turbo**.

With the aim of decarbonizing the field of mobility, many countries strive to shift freight transport off the roads and onto rails. To this end, it is necessary to significantly increase the degree of automation of rail freight transport. Consequently, we are currently developing an automatic freight coupling that includes digital solutions for boosting efficiency in railroad goods traffic with a view to tapping into the cargo rail strategic growth area.

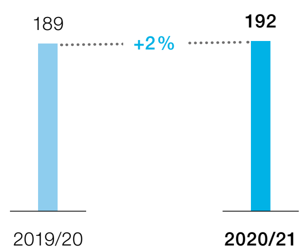
All strategic growth areas are not only linked to the megatrend of decarbonization but are also closely intertwined with the new possibilities of digitalization. Even in what is today our core business digitalization plays an important role. For instance, we develop digital solutions and services for the Industrial Internet of Things (IIoT) that enable customers of our three Group Divisions to permanently increase the efficiency and availability of their systems and mobility applications. Our OnCumulus cloud platform in addition to our software applications and AI-driven solutions form the basis for these services and solutions.

Alongside the digital transformation of our customers, we are also accelerating the digitalization of our company. Through standardization of our internal digital infrastructure and our digital applications we are optimizing our processes and facilitating a continuous stream of innovations that are reflected in internal efficiency gains and an increasingly data-based decision-making process.

As the Voith Group, we continue to invest consistently in research and development of new solutions – over the past five years investment in this field has totaled over €1 billion. Even in the two fiscal years marked by the Covid-19 crisis, we made a conscious decision to keep our R&D commitment at a high level.

The Voith Group’s R&D expenses developed as follows over the reporting year:

Research and development Group
in € millions



Based on Group sales, the R&D ratio of the Voith Group stood at 4.5%, as was the case in the previous year. Of the total R&D expenses of €192 million, €6 million were capitalized (previous year: €10 million). Simultaneously, depreciation and amortization of €8 million (previous year: €7 million) was recognized on capitalized development costs.

Our latest innovations in the reporting year are described in section II.4. Business development of the Group Divisions.

I.5. Sustainability*

We continue the traditions of the family-owned company Voith based on our understanding of sustainability: the obligation to take ecologically sound, socially responsible and fair actions, and to return a profit over the long term. We are systematically implementing our sustainability strategy and have defined five fields of action to this end. Our aspiration of sustainable business management and our pursuit of profitable growth are stated here, as is our responsibility for our products, for the environment and for our employees.

Voith is one of the leading companies in its sector with regard to sustainable business. With the objective of achieving climate-neutral operations overall at a global level as of 2022, we are once again taking on a pioneering role. Our claim to leadership has also been confirmed by an independent body: in the corporate rating by the renowned rating agency ISS ESG Voith ranks as one of the three best companies in the world in the mechanical and plant engineering industry. In 2021, our sustainability activities were awarded a B- rating by ISS ESG for the first time. We have held “prime” status since 2018, to date with a C+ rating. In addition to the motivation it gives at a professional level, we are also benefiting from this award in terms of economics, as assessments of this kind play an ever-increasing role in the decision-making by lenders. The improvement in the ISS-ESG rating enables us to further lower our financing

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costs as sustainable companies are increasingly in demand on the financial markets. Our achievements and reputation in the field of sustainability have also been confirmed in other surveys. In December 2020, for instance, Voith took 19th place in a cross-industry ranking of the 200 most sustainable companies in Germany. The ranking is based on a study carried out by the German magazine “stern” in cooperation with market research firm Statista. Of a total of 2,000 companies analyzed, 200 qualified for the ranking.

The current version of the Voith Sustainability Report is available on the Internet at **http://voith.com/corp-en/about-us/sustainability.html**.

The Group Directive on Sustainability governs the organization, responsibilities and the principles of our actions in this field. Since 2009, Voith has systematically recorded and analyzed environmental data, materials indicators and relevant personnel data. Since 2011, we have published an annual sustainability report that provides information on such issues as environmental, employee and social matters as well as compliance with human rights and the combating of corruption. Comprehensive figures, data, facts and explanations relating to all the aforementioned fields of action can be found in our sustainability report.

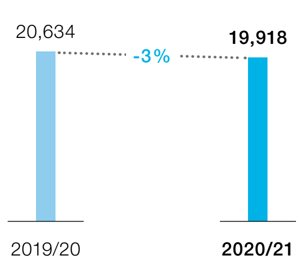
Section I.6. of this management report contains general information on how we fulfill our responsibility towards our employees.

I.6. Employees

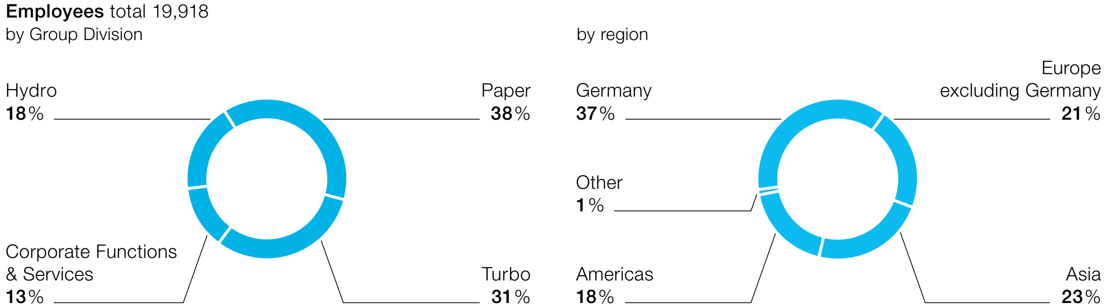
Number and distribution of employees

The number of employees in the Voith Group developed as follows in the 2020/21 fiscal year and were distributed across the various Group Divisions and regions as shown (all figures represent full-time equivalents excluding apprentices, as at September 30 in each case):

Employees Group
Full-time equivalents as at September 30



Employees total 19,918



The headcount of Voith Group employees fell by 716 in the reporting year. Jobs were cut in all Group Divisions and also in the Group's holding company.

At Voith Hydro, the number of jobs decreased by 47 to 3,628 as at the end of the 2020/21 fiscal year (previous year: 3,675). This was mainly due to further capacity adjustments in Brazil where investments in infrastructure have been subdued for years on account of the ongoing economic and political crisis.

At Voith Paper, the Group Division with the highest headcount (September 30, 2021: 7,432 employees), there were 161 fewer employees than in the previous year (7,593). The decrease stems firstly from market-related capacity adjustments in North and South America as a consequence of the ongoing reluctance to invest in the business with new lines and rebuilds. Secondly, a streamlining of administrative structures worldwide and specifically in Germany contributed to the headcount reduction.

At Voith Turbo, the number of employees fell by 355 to 6,200 as at September 30, 2021 (previous year: 6,555). The background to this development is essentially the streamlining of the administrative structures and optimization of the production network.

In Corporate Functions & Services, i.e. in the Group's holding company, there were 2,658 employees as at September 30, 2021 (previous year: 2,811). This figure also includes the employees of the former Group Division Digital Ventures, which was assigned to the Group's holding company as a cross-divisional function in the reporting year. The previous-year figure was adjusted accordingly. As part of the streamlining of the administrative functions, 153 jobs were cut at Corporate Functions & Services.

As far as the regions are concerned, the majority of Voith's employees continue to be based in Germany. The second largest region is Asia, followed by Europe excluding Germany, and the Americas.

First-class professional training*

In the reporting year, we once again provided a large number of young people with career prospects and maintained a high level of apprenticeships. At the close of the 2020/21 fiscal year, 752 apprentices and students were employed at Voith locations around the globe (previous year: 744, +1 %; basis: headcount).

As a matter of tradition, we attach great importance to first-class vocational training. We received confirmation of this in September 2021 with the survey on “Germany’s Best Training Companies” conducted by the Cologne-based analysis institute Service Value in cooperation with “Welt” daily newspaper. With a “very high level of attractiveness”, Voith received an award in the Industry segment – an excellent result of 18th place from just under 1,850 companies listed. The basis for our success is the focus on interdisciplinary learning and a holistic approach to imparting a combination of both social and professional skills. We are also committed to the topic of education at our international locations. The largest Voith training facility outside Germany is the Kunshan Training Center in China. At that facility, we employ training methods based on the German dual system but adapted to local requirements. Since it opened in 2014, we have trained around 100 young people in Kunshan. In Brazil, where Voith opened its first plant outside of Europe back in 1964, we have also been providing vocational training for many years now. In São Paulo, for example, we team with local training institutions to offer young people aged 15 years and older a dual-track apprenticeship, generally two years in length, that regularly provides excellently qualified young technicians.

i
CNC (computerized numerical control) machines are machine tools that, due to the use of open-loop control systems, are able to automatically manufacture workpieces, even complex shapes, at a high level of precision. CIM stands for computer-integrated manufacturing, CAD means computer-aided design.

As part of digital transformation, modern information and communications technologies merge with industrial processes. In order to prepare young people appropriately for a changing production landscape, we are working intensely with digital content in vocational education. At the focal point of investment in the past fiscal year were four new CNC machines that were integrated into the CIM environment of the vocational education with CAD and digital tool calibration.

Advancing Voith’s culture*

One significant objective of HR work at Voith involves providing effective support for the envisioned refinement of our corporate culture – an important pillar of our corporate strategy. We laid the foundations for this success in the previous year with the development of our new competency model that we have consistently built up over the 2020/21 fiscal year. One central field of action in this context is the holistic integration of the competency model into all tools of HR work and the corresponding modification of these tools. The competency model consists of the underlying dimensions of “Achieve”, “Collaborate” and “Explore” (“ACE”), which are closely connected to the leadership competencies of “Enable”, “Connect” and “Transform”.

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Recruitment and personnel marketing*

The employer branding campaign, which was launched in the previous year and includes our new competencies and places employees from all regions at center stage, was rolled out to all relevant digital channels over the reporting year.

In the choice of applicants, the crucial factors include, in addition to the required professional qualifications, ways of thinking and working that align with our corporate culture. Consequently, a newly developed job interview guideline also draws on the competency model. It was introduced in Germany in the reporting year and it is intended to be used in all regions once it has been adapted to local requirements.

Personnel development and talent management*

In light of the great speed of change – in the context of digitalization, to name one of many examples – the willingness to engage in lifelong learning is a requirement we place on each and every employee. Based on our employees' individual training needs, we offer them access to internal and external training and personal development measures that expand their professional, personal and methodology skill sets. Our personnel development concepts are intended to help us, as an organization, to prepare for a dynamic, complex and networked working world and empower our employees to actively participate in shaping it. In this respect, a key role will be played by executive managers. Consequently, we developed and implemented a holistic model for leadership on the basis of the new competencies over the fiscal year. The MyDialogue tool based on this model was piloted in the reporting year and is now being implemented at a global level over the course of the 2021/22 fiscal year. Executive managers were readied for application of the new leadership concept within the framework of a modular e-learning journey. As a supplement to self-studies, digital exchanges of experience, referred to as recap sessions, were held for executive managers.

The intention is for the talent management tools for executive managers piloted in the reporting year to be applied throughout the entire organization in the coming fiscal year. In addition, we are planning a pilot project relating to a feedback method to allow executive managers to obtain feedback on their leadership conduct from various perspectives. The results of such executive manager feedback are an important factor in the success of our efforts to refine our corporate culture.

Even the format of the Voith Academy was scrutinized. This ultimately resulted in a regional format facilitating the exchange of views between executive managers and the holding of workshops. Applying design thinking methods, a prototype was developed over the reporting year; it bears the working title of “Leadership Forum” and puts the leadership competencies of “Transform” and “Connect” at center stage. Beginning in the 2021/22 fiscal year, it is intended to provide our executive managers with the possibility of meeting up with other executive managers in the region in order to network, learn together and from each other, and to get involved in the cultural development at a completely practical level.

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Ongoing digitalization of HR processes*

We have made further progress with the digitalization of HR processes. To name one example, we started the rollout of a Group-wide HR service delivery platform in the reporting year that maps HR processes and renders their handling more efficient.

As a first step, we have been using this platform since spring 2021 initially to offer all employees in Germany a personal, electronic safe that enables us to digitally deliver employer-generated correspondence, such as remuneration statements – an offer that the majority of our workforce makes use of.

Furthermore, in the future we are going to bundle our HR knowledge database and entire operating HR service on the new platform to have everything in one place. Since October 2021, the platform has provided Voithians optimized access to information relating to their employment relationship and the benefits of a higher level of service: in addition to an intelligent search function, employee self-service is already on offer in all regions for the first HR services. In Germany, these include applications for parental leave, special leave or secondary employment. With guidance from a structured query procedure, such applications can be made online and processed digitally.

The new platform is currently available in all countries supported by an HR Global Business Services Center and can thus be used by the vast majority of Voith employees. We have set ourselves the goal over the coming two years to gradually migrate all HR services that can be optimized through digitalization to the new platform.

Work-life balance*

At Voith, it is a matter of course to provide fair working conditions and competitive compensation. Voith sees itself as a family-friendly company. This perception of ourselves has been defined in our Group-wide guidelines for a flexible and family-oriented work culture. It is our declared objective to offer our employees a working environment that adjusts as flexibly as possible to their particular circumstances. This also includes individual working-time models that employees can sign up to in consultation with their line managers. These models range from a combination of “mobile working” and on-site presence, or part-time work and job sharing through to flexible vacation arrangements and sabbaticals.

Diversity, inclusion and equal opportunity*

As an employer, Voith sees it as its duty to offer all its employees equal opportunities and to ensure that the workplace is free from discrimination. In the reporting year, this stance was reinforced in the form of a Declaration on Diversity, Inclusion and Equal Opportunities (“D&I Declaration”) signed by the Corporate Board of Management.

The D&I Declaration can be downloaded from our corporate website at **https://voith.com/corp-en/about-us/diversity-and-inclusion.html.**

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Since the 2012/13 fiscal year, there has been a Group-wide diversity and inclusion (D&I) program in place at Voith. At Voith, we see diversity as being the totality of our employees with differences in age, gender, nationality, educational and professional background, as well as all other individual differences, such as religion, culture, beliefs, sexual orientation, disabilities or personal and social background. We believe that these dimensions of diversity, including different experiences, talents and strengths, induce diversity of thought. By inclusion, we mean the way we work together at Voith. An inclusive work culture is a culture of mutual respect, appreciation and equal opportunities, which is open to different ideas and perspectives.

Alongside consistently increasing executive and employee awareness by means of workshops and related campaigns, the D&I program also involves optimizing our processes with the objective of countering unconscious patterns of thought. This year, a coaching format on the topic of equal opportunities addressed at executive managers and other multiplicators was piloted in Germany. In addition, managers have been provided with a D&I toolkit that contains concrete suggestions on how to work in and manage teams. As a signatory to the Diversity Charter, Voith has taken part in the German Diversity Day since 2019. In 2021, this day was expanded into a global D&I month during which attendees of self-directed regional and global workshops learned together and from each other.

As women are still underrepresented in technical professions and courses of studies, technology companies employ significantly fewer women than men, in general. The proportion of women in the overall workforce stood at 18% (previous year: 18%, based on headcount). We are implementing a wide range of measures to increase the proportion of women, specifically the proportion of female executives, within the Company. These include, for example, personnel marketing activities aimed at inspiring girls and women to take up STEM professions and positioning Voith as an attractive employer also and specifically for female candidates. In addition, we have set ourselves appropriate recruitment goals applicable at all levels and for all regions and divisions, with support coming from the deployment of special recruitment methods and channels. Furthermore, we are working on promoting equal opportunities in all phases an employee passes through within the Company. These activities are also supported by internal women's networks with various initiatives such as mentoring programs, networking events and courses.

Occupational health and safety management*

Occupational health and safety are top priorities for us. By taking a responsible approach to the design of workplaces and processes, we aim to avoid accidents and work-related illnesses as far as is possible. In the field of occupational safety, we are building on our effective HSE (Health, Safety, Environment) organization. This organization has to a great extent a decentralized structure, where the HSE officers of the Group Divisions coordinate their activities in a central Quality & HSE/Sustainability Board and report to the Global Head of Corporate HSE. The Group-wide IT system hse+ assists our HSE experts in their

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work. A corresponding Group directive documents the framework and responsibilities for occupational health and safety; it further prescribes mandatory minimum requirements and standards for the Voith Group and contains fundamental processes and operating procedures.

All employees are covered by Voith's occupational safety program. Information and goals are rolled out throughout the organization, from the Board of Management through the respective executives down to employee level. Supervisors train their teams and address safety issues at regular meetings. This process is supported by the use of centrally coordinated training documents.

Since the implementation of our global occupational safety program, we have seen great improvements at all our locations. The frequency rate, calculated pursuant to an international standard and documenting the number of accidents per one million working hours, has been reduced appreciably from the baseline of 13.9, or 921 reportable accidents per year in the 2008/09 fiscal year. In the reporting year, the number of accidents per 1 million working hours stood at 2.1 (previous year: 1.8), which means there was a total of 79 (previous year: 68) accidents. In comparison: the average frequency rate for companies in the German Wood and Metal Trades Association is 20.7. In the reporting year, what is known as the severity rate stood at 537 (previous year: 455) hours lost per one million working hours.

Despite our enormous efforts and the measurable successes achieved in the field of occupational safety, the 2020/21 fiscal year was overshadowed by a work-related fatality. The tragedy occurred in July 2021 at a plant of ELIN Motoren GmbH in Hungary in which Voith acquired a majority shareholding in the previous year. We are deeply saddened by the death of our colleague. Working together with the local authorities, we are performing a rigorous and extremely transparent investigation of the incident. Our efforts in this respect are focusing on determining the exact cause and further refining our processes. Appropriate specific measures were taken at the location concerned.

Although we have achieved a great deal in the past, it is important that we continue to place a strong and uncompromising focus on strict occupational safety measures and constantly draw our employees' attention to this topic. For example, we took the recent rise in the frequency rate and the severity rate as an opportunity to hold a global awareness campaign in the reporting year that targeted the avoidance of hand injuries. According to an internal analysis, hand injuries are one of the most frequent causes of accidents at Voith.

In the field of occupational health and safety we place particular emphasis on prevention. This involves pursuing a regional approach appropriate to heterogeneous conditions. No matter where our employees work, they should be able to maintain their ability to work and retire in good health at the end of their working lives. The Covid-19 pandemic constitutes an ongoing challenge in the field of health and safety. Since the beginning of 2020, we have taken a number of preventive measures, firstly to protect to the greatest possible extent the health of our employees and secondly as our contribution to containing the pandemic. One important measure taken in the 2020/21 fiscal year was to make our employees at many locations an offer of vaccination and by doing so support and accelerate the general vaccination campaign.

Information on our Covid-19 crisis management has been put together in section I.7. of this management report.

I.7. Covid-19 crisis management*

Proactive crisis management

The 2020/21 fiscal year is the second one that we have successfully managed under the influence of the Covid-19 pandemic. Our Covid-19 crisis management put in place in the previous year was refined in the reporting year and flexibly adapted to new developments and local demands time and time again. In our response to the crisis, we placed absolute top priority on protecting the health of our employees and stabilizing the net assets, financial position and earnings position of the Company. In addition, we feel an obligation to exercise our social responsibility and make our contribution to containing the pandemic.

Covid-19 crisis management takes place on several levels at Voith: the Corporate Board of Management coordinates the topic at the highest level and holds regular consultations with the Supervisory Board. There has been a global Covid-19 crisis team in place since January 2020; reporting to the Corporate Board of Management, the team develops regulations and recommendations applicable throughout the Group. The global team acts in close cooperation with the four regional crisis teams. The latter implement regional and local measures, in some cases supported by on-site crisis teams that were formed for all larger facilities. The crisis teams comprise representatives from different areas of the Company including the responsible works councils in order to ensure the most comprehensive view possible of the manifold aspects of crisis management. The decentralized structure of the crisis organization again enabled us to respond at short notice to changing situations whenever necessary, such as by implementing location-specific measures to contain the local infection activity at the required speed, during the reporting year.

However, a crisis situation ultimately places demands on all our colleagues, not only in implementing the adopted measures in a disciplined manner and flexibly adapting to new requirements but also contributing to the solution of the challenges arising in day-to-day operations with the required prudence and creativity. Continuous provision of transparent information is therefore an important tool in our crisis management. For this purpose, we use internal channels of communication such as CEO circulars and intranet news, posters, brochures and notices hung in production areas and e-mails specifically addressed to executive managers. Furthermore, all relevant information and procedures relating to Covid-19 can be accessed via SharePoint with access authorization for all employees or restricted to specific groups of individuals. For medical questions and questions of safety we have set up hotlines to the occupational health service and the HSE officers.

Preventive health and safety

We have taken a number of preventive measures, firstly to protect to the greatest possible extent the health of our employees, and secondly as our contribution to slowing the momentum of the various waves of infection.

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With the objective of reducing the number of persons present at our facilities, the options for mobile working were appreciably expanded as early as the beginning of 2020. Many employees with screen-based workstations have been performing at least part of their work remotely since the beginning of the pandemic. Personal internal get-togethers and face-to-face meetings with external business partners were replaced to a great extent by telephone conferences and online meetings. In addition, there are travel restrictions in place around the world that depend on circumstances that vary between regions. Only essential business trips are possible and subject to compliance with statutory regulations of the respective countries of origin and destination.

In the previous year, switching a large number of employees over to mobile working at short notice and at the same time posed a major challenge that was successfully managed by our internal IT function. Several thousand colleagues who had worked exclusively from the office up to that point in time were provided at extremely short notice with the means to securely access their systems, documents and data in order to remain able to communicate and perform their work. To this end, our Internet broadband was significantly increased, and the employees concerned were granted appropriate access to the Voith systems and relevant IT support. Despite the need for haste, our acute crisis management not only centered on establishing a fast and stable IT infrastructure but also placed great emphasis on protecting Voith's data and systems, both at a technical and organizational level. As a result, it was possible to continue business operations virtually without restriction, and communication with internal and external contacts ran smoothly. Productivity remained high; data and system security were ensured at all times. The corresponding processes quickly became standard operations and have long since become normal.

For the employees remaining at the facilities, primarily those in production and logistics and deployed in safeguarding infrastructure, a wide range of protective measures were introduced on-site to avoid the risk of infection to the greatest possible extent. We pay attention to strict compliance with social distancing and the hygiene concepts both at our own facilities and at customers' premises. Over and above this, Voith places great importance on offering tests on a regular basis and adequate ventilation at intervals. All this serves to protect not only our employees but also our customers and partners; at the same time, it is essential to allow us to perform services and carry out construction site activities and to enable us to support our customers in maintaining their production and implementing their projects.

One important health and safety measure taken in the 2020/21 fiscal year was to make our employees at many locations an offer of vaccination and by doing so support and accelerate the general vaccination campaign. The vaccinations were organized on a decentralized level due, among other things, to the availability of vaccine in each country. The offer was very well received: in Germany alone we administered around 3,000 doses of vaccine. Similarly, tests that are performed and paid for by Voith when employees travel on business to high-risk areas, for example, also make a contribution to containing the spread of infection.

Depending on the local infection rates and progress with vaccination, physical presence in offices increased again at some locations towards the end of the reporting year. The necessary room concepts were implemented for office space and conference rooms as well as for corridors and other shared areas. In addition, all organizational and technical prerequisites remain in place to have a larger number of employees working in mobile arrangements again in the event that it becomes necessary once more to limit the number of contacts at a local or regional level.

We continue to closely observe developments and keep our employees up to date promptly and proactively. In doing so, we follow the guidelines issued by the WHO and national authorities with whom we communicate directly. We reserve the right to intensify the protective measures at any time, depending on the given situation.

Stabilization of the net assets, financial position and earnings position

In the light of the global recession triggered by the Covid-19 crisis in the previous year, stabilization of the net assets, financial position and earnings position of our company is a further important objective of our crisis management. With regard to stabilization of the sales side, it was essential to service our orders and also stand by our customers with on-site services even under pandemic conditions. Alongside application of our hygiene and safety concepts, one other important prerequisite for maintaining our production was safeguarding our procurement. When the global supply chains were disrupted by lockdowns and contact restrictions in the first half of 2020, we drew up – in close cooperation with our suppliers – individual solutions for the acute phase, which were implemented at short notice. As a result, our delivery capability was generally ensured even if there were time delays on occasions. Nevertheless, the pandemic has also made supply chains more prone to breakdowns over the medium term. For this reason, we then implemented a concept aimed at rendering them more resilient on the basis of a systematic analysis of the critical value-added chains. For instance, we countered supply bottlenecks for raw materials and components as well as rising logistics costs as a consequence of the pandemic in the reporting year with further diversification and localization of the supply chains.

In order to compensate for at least part of the recession-related fall in sales, short-term cost-cutting measures relating to advisory and travel expenses, for example, were put in place. Over and above this, Voith made use of government assistance programs, such as short-time working allowances in Germany and similar offerings in other countries wherever possible and appropriate. Measures to boost efficiency with a longer timeframe, such as streamlining the administrative functions, were implemented as planned. In doing so, we made a conscious decision to continue investing in the future of our company: in tapping into new business segments and markets, research and development, business acquisitions and strategic projects to further the ongoing development of our company.

Social responsibility

Alongside safeguarding our own corporate interests, we also intend to exercise our social responsibility with regard to containing the pandemic and overcoming the global crisis. We see the Covid-19 vaccinations as being an important preventive protective measure in the battle against the pandemic. We are consequently supporting the general vaccination campaign at many locations with our own offers of vaccination for our employees.

Over and above this there were various local initiatives by our company, frequently carried by a high measure of personal dedication on the part of Voithians. Some of them are named below to serve as examples. After the outbreak of Covid-19 in China, the readiness to help was initially directed towards the colleagues and the general population of Voith's Kunshan location. In February 2020, for example, a coordinated action by Voith locations in Germany, Indonesia, Malaysia, Japan, Turkey and the USA involved procuring respiratory protective masks and other medical supplies such as protective suits and goggles and sending them to Kunshan. There, some of the supplies were distributed to the Voith employees and the rest was handed over to the local government to equip medical assistants.

At our German headquarters in Heidenheim, Voith provided assistance to the local medical center in spring 2020, when there were significant supply bottlenecks for medical equipment and there were impending financial difficulties at hospitals: in March 2020, for example, we donated 20,000 surgical face masks we had in stock at the Company to the hospital. Furthermore, Voith joined forces with the Hanns Voith Foundation in April to finance an urgently needed supply unit that is able to supply 84 beds with oxygen, thus benefiting people critically ill with Covid-19.

At Voith's São Paulo location in Brazil, 10,000 surgical face masks were likewise handed over to a hospital in the region in April 2020. For its own employees, Voith commissioned local sewing businesses and workshops with the manufacture of 1,500 cloth masks. Over and above this, at the initiative of employees at the São Paulo location, food was distributed to needy residents of the area around the Voith plant on several occasions. Most recently, in June 2021, six tons of goods were handed over to various organizations in the region who used it to help people in need. The food was financed by donations from Voith employees which were matched by a donation from the Company.

At various locations in North America, Voithians got involved in their local communities. For instance, employees of our US location in West Monroe sprang into action when they found out that people in a local retirement home were not going to receive any visits or presents for Christmas 2020 on account of the measures to restrict contacts. They fulfilled the wish list of many residents and helped hand over the donated gifts to the recipients in a Covid-19-compliant manner. In addition, employees in the USA participated in various blood donor campaigns throughout the reporting year.

Resilience of organization and business model proven

To date, we have coped well with the Covid-19 crisis. As a preliminary conclusion, the following can be stated:

1. Voith has so far come through the crisis in better shape than was to be expected at the outbreak of the pandemic.

2. We fulfilled our responsibility towards our employees – in protecting their health and their jobs.

3. We proved to be a reliable partner for our customers throughout the crisis.
It was possible to maintain business operations and production – with only few interruptions at individual locations due to government regulations over the first half of the year 2020. This means that we fulfilled our orders to a great extent with the usual dependability and also maintained our service business.

4. The earnings position benefited from the Company's broad sectoral and geographical positioning and the established market position in all three Group Divisions: any declines in sales were very limited in scope, even when adjusted for M&A effects. Although we also invested in the future of our company in the crisis, Voith returned a profit even in the 2019/20 and 2020/21 fiscal years, both in terms of EBIT and Group net result. We are, however, down on the pre-crisis level in terms of the net result.

5. With regard to the financial and liquidity situation, Voith proved to be crisis-proof. A sound balance sheet and reliable funding lines ensured that no liquidity crunch occurred at any time during the period overshadowed by the Covid-19 pandemic.

6. We exploited the opportunities brought about by the global upswing starting at the end of 2020. Even before the end of the 2020/21 fiscal year, orders received had risen above the pre-crisis level. As of the end of the reporting year, the level of orders on hand is at an all-time high, but this will only be gradually reflected in growth in sales.

7. The resilience of our business model and our organization that we have proven over the past two years is an important prerequisite for long-term positive business development.

II. Economic report

II.1. Overall assessment

Robust development: orders received up 24 %, sales slightly above previous year, appreciable increase in EBIT despite pandemic-related restrictions

The Voith Group looks back on a challenging 2020/21 fiscal year (October 1, 2020 to September 30, 2021) – the second fiscal year impacted by the Covid-19 pandemic. While many industries gradually recovered during the reporting year after the global recession of the previous year, the macroeconomic environment continued to be marked by the disruptions triggered by the pandemic. These include in particular supply chain disruptions and shortages of raw materials and intermediate products that translated into higher logistics costs and rising materials prices.

Voith made use of the opportunities presented by the economic recovery and increased the level of its orders received by almost €1 billion or 24 % to €5.0 billion. All three Group Divisions generated levels of orders received in excess of our expectations. The strongest growth (+35 %) was seen in the Group Division Paper, which operated successfully on the market in a year of intense investment by the paper industry. The Voith Group's orders on hand rose to a record level and stood at more than €6.2 billion as at the end of the fiscal year on September 30, 2021.

On account of the long lead times of plant engineering projects, the level of orders on hand reached in the reporting year will be only gradually reflected in sales growth. In the 2020/21 fiscal year, pandemic-related restrictions on operations such as travel limitations and limited access to construction sites led to delays in project implementation and also impeded the service business. Benefiting from consolidation effects from the acquisitions completed in the previous year, Group sales increased by 2 % (adjusted for currency effects by 4 %) to €4.3 billion and were thus in line with our expectations.

EBIT rose by 18 % on the previous year and reached €165 million, exceeded planning targets. In line with this development, the profitability indicators of return on sales (3.9%) and ROCE (8.8%) also improved. The increase in the operating result essentially arises from EBIT growth in the Group Division Paper. The streamlining of the administrative functions also had a positive impact on the operating result.

The result before taxes from continuing operations rose by 9% to €80 million. The Group net result stood at €1 million and was thus slightly down on the previous-year level (previous year: €6 million). The main reason is a higher level of tax expenses resulting from deferred taxes.

Despite the ongoing challenges of the market environment, we have once again made significant investments for the future over the 2020/21 fiscal year. In this context, the strong orientation of the Voith Group towards industrial sustainability and the ongoing strategic and technological enhancement of the Voith product portfolio are given high priority. For instance, we kept our R&D expenditure at a high level and in doing so not only drove forward individual product innovations but also the development of fundamental technologies aimed at tapping into strategic growth areas. Over and above this, we have invested in our own organization: in the digitalization of our business processes, the optimization of our internal structures and the refinement of our corporate culture. One important multiyear project that we pursued with great dedication in the reporting year relates to the introduction of a Group-wide ERP system.

The net assets and the financial position of the Voith Group remain very sound. The equity ratio stood at 19.8% at the end of the reporting year (previous year: 20.8%). The cash flow from operating activities was clearly positive at €144 million but was down on the previous-year figure (previous year: €234 million) in the light of larger inventories as well as a higher level of trade receivables. Total cash flow was negative at €-89 million (previous year: €200 million). One material cause for this development was the drop in the volume of loans taken out, which had been exceptionally high in the previous year due to the financing of business combinations. Besides this, the decrease in total cash flow was caused by the scheduled repayment of loans.

The net liquidity, defined as the difference between liquid financial assets and interest-bearing financial liabilities (not taking lease liabilities into consideration), remains at a good level even after the last purchase price payments from the acquisition activity in the previous year and amounted to €-5 million as at September 30, 2021 (previous year: €71 million). The stable liquidity position from our own bank balances and existing loan agreements gives us sufficient leeway to further invest in our future and to advance important strategic topics.

All in all, Voith has so far come through the crisis in better shape than was to be expected at the outbreak of the Covid-19 pandemic. The declines in sales on the pre-crisis year 2018/19 were limited in scope, thanks to the broad sectoral and geographical positioning of the Company and the established market position in all three Group Divisions. We returned a profit in both of the fiscal years overshadowed by the pandemic and its macroeconomic consequences. The level of orders on hand at the end of the fiscal year is at an all-time high. Even after intense investment activity, the liquidity situation is stable and crisis-proof – thanks to a sound balance sheet and reliable long-term funding lines. In the light of the situation outlined, we are cautiously optimistic as we look to the future, and forecast for the 2021/22 fiscal year slight sales growth and rising profitability despite the ongoing challenges posed by the economic environment.

II.2. Macroeconomic and industry-specific environment

Global economy on rocky path to recovery

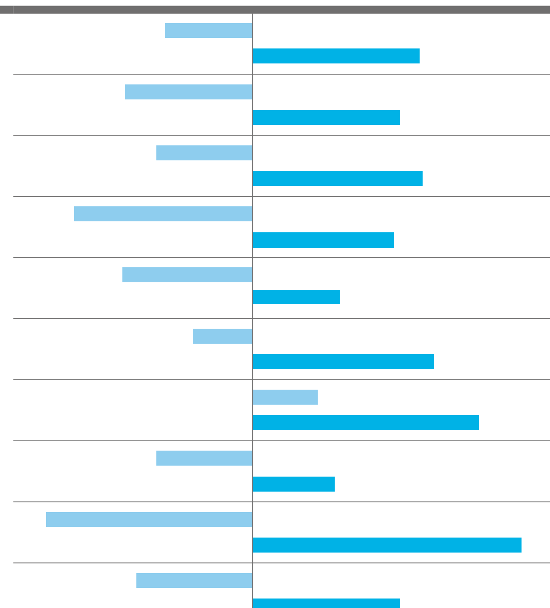
After the global recession in the previous year caused by the Covid-19 pandemic, the global economy was on the way to recovery in the 2020/21 fiscal year. However, some countries were hit by severe second and third waves of infection requiring new rounds of lockdowns. As vaccination progressed, most economies gradually opened up. The macroeconomic environment nevertheless continued to be characterized by the disruptions triggered by the pandemic. These included in particular supply chain disruptions, imbalances between supply and demand and bottlenecks affecting raw materials, intermediate products and components.

In its World Economic Outlook (WEO) from October 2021, the International Monetary Fund (IMF) forecast global economic growth of 5.9% for the full year 2021. This assumption is more optimistic than the economic forecasts available at the time of publication of our 2020 annual report. And even the slump in global economic output in 2020 of -3.1% turned out to be less severe than anticipated in autumn 2020. A contribution to this development exceeding expectations came from extensive government financial aid and economic stimulus packages that mitigated the economic impact of the Covid-19 pandemic.

Gross domestic product is expected to increase in all regions and countries over 2021 albeit at different rates of growth.

Economic growth
Real change in GDP[1] on the previous year

World output	2020	-3.1%
	2021	**5.9%**
Advanced economies	2020	-4.5%
	2021	**5.2%**
USA	2020	-3.4%
	2021	**6.0%**
Euro area[2]	2020	-6.3%
	2021	**5.0%**
Germany	2020	-4.6%
	2021	**3.1%**
Emerging market and developing economies	2020	-2.1%
	2021	**6.4%**
China	2020	2.3%
	2021	**8.0%**
ASEAN-5	2020	-3.4%
	2021	**2.9%**
India	2020	-7.3%
	2021	**9.5%**
Brazil	2020	-4.1%
	2021	**5.2%**



Source: International Monetary Fund (IMF); World Economic Outlook, October 2021.
[1] 2020: estimates; 2021: forecasts.
[2] Including Germany.

Among the advanced economies, the US economy is developing especially well. The decline in 2020 was smaller than in most other Western economies and, thanks to a vaccination campaign launched at an early stage and an extensive fiscal package, US GDP will grow, according to IMF forecasts, by 6.0% in 2021 and will already exceed the pre-crisis level of 2019 again. There was a more severe slump in the euro area in 2020 and recovery is slower than in the USA despite an extensive investment package passed in 2020. Being an export-oriented economy with a strong manufacturing industry, Germany reacts particularly sensitively to disruptions to global supply chains and trade flows, as well as to shortages of raw and other materials. Slower than average growth is expected here in 2021 in comparison to the global development.

China stands out among the emerging markets: China was the only major economy to record growth in gross domestic product in the crisis year 2020, and a growth rate appreciably in excess of the global average is expected for 2021 (IMF forecast for 2021: +8.0%). The ASEAN-5 countries are lagging appreciably behind this development. India's economy experienced an unprecedented slump in 2020 after an extremely strict and protracted lockdown and was hit hard by a second wave of Covid-19 infection in spring 2021. Thanks to strong activity following the lockdowns, a growth rate above the global average (+9.5%) is expected for 2021, albeit at a low absolute level. In Brazil the pandemic hit into an economy that had been ailing and unstable for some time. In 2021, the country has been benefiting from the global upswing in the manufacturing industry and higher raw materials prices but will probably grow at a slower rate (+5.2%) than the global average.

Mechanical and plant engineering in an upswing

After the Covid-19-related massive slump in the previous year, the mechanical and plant engineering industry returned perceptible growth in the reporting year. Consequently, the key figures for the German mechanical and plant engineering sector saw a clearly positive development in the reporting year, according to data provided by the VDMA, the relevant industry association. Over the first seven months (January–July) of the calendar year 2021, orders received rose by 32%, driven by strong demand for exports. Real production grew 7.1% over the same period; for the full year 2021, the VDMA economists forecast a rise of around 10%. The production value in the German mechanical engineering sector would thus be slightly below the pre-crisis level. Capacity utilization stood at just under 89% in July 2021 (previous year: 76%). However, the business climate for the mechanical and plant engineering industry has deteriorated most recently in the light of worsening shortages of raw materials and intermediate products.

Recovery trajectories vary between the five Voith markets

The five target markets served by Voith showed signs of recovery in the 2020/21 fiscal year that varied in strength. The markets for paper and raw materials and the commercial vehicle segment in the transport & automotive market saw especially positive developments – in the reporting year, they had reached a higher level than before the crisis. Particularly in the oil & gas industry, the previous year's unprecedented slump is still having a perceptible effect despite significantly higher prices.

Energy: renewable energies predominate in the expansion of power generation capacities

The energy market encompasses the conversion of various primary energy sources such as hydropower and wind or also coal and gas into electricity, as well as various forms of storage. This market is served by the Group Divisions Hydro and Turbo (division Industry).

Global electricity consumption, which underwent a decline triggered by the slump in economic activity in the first half of 2020, rose over the 2020/21 fiscal year, driven by strong demand from China. The International Energy Agency (IEA) assumes that global electricity consumption will reach a level perceptibly above that seen in 2019 before the end of 2021 but consumption in industrial countries is, however, likely to remain below the pre-crisis level. Electricity needs will continue to rise over the medium term due to the increasing electrification of all areas of life.

More than half of the growth in electricity generation anticipated for 2021 stems from renewable energy sources. While conventional electricity generation is likewise rising in 2021 in comparison to the crisis year 2020, IEA forecasts predict that it will at most come to stand at the level of 2019 (coal, gas) or even below (oil, nuclear energy). This means that the secular trend towards renewable energies is continuing; their share in global electricity generation will grow to almost 30% in 2021, according to an IEA estimate.

Renewable energies are also dominating capital expenditure on new power generation capacities. According to IEA estimates, 70% of all investments in 2021 will flow into the expansion of electricity generation capacities of renewable energies. In the area of hydropower the market volume may fluctuate sharply from year to year on account of the large volumes of investment of individual hydropower projects. In the 2020/21 fiscal year, the award volume relevant for the Group Division Hydro did increase slightly in comparison to the low previous-year figure, but remained appreciably below the pre-crisis level. Investment in the market for conventional power plant technology, which is relevant for the Group Division Turbo, increased slightly from a low level in the reporting year.

Oil & gas: perceptible recovery in prices, investments below pre-crisis level

The oil & gas market comprises three segments: upstream involving the extraction of crude oil and natural gas, midstream involving transport of raw materials primarily via pipelines and tankers, and downstream consisting of the refining of crude oil and natural gas into the various fuels and raw materials used by the chemicals industry. The division Industry of the Group Division Turbo supplies all segments in this market with application-specific products and services.

After the slump in the previous year, the prices for oil and gas have appreciably recovered. The crude oil price that had fallen below USD 20 in April 2020, rose rapidly over the 2020/21 fiscal year. Starting with prices of around USD 40 in October 2020, the price for a barrel of Brent oil increased to just under USD 70 by the beginning of March 2021, thus already reaching a higher level than before the crisis. In the second half of the fiscal year, the price of Brent oil moved, with the occasional reversal, towards the USD 80 mark and stood at just over USD 78 at the end of the fiscal year. The oil price reacted to the upturn in the demand for oil associated with the global recovery and to OPEC's and its partners' (OPEC+) production cuts. Demand for oil in 2021 is, however, still down on the pre-crisis level and, according to estimates by the IEA, will not rise to 2019 levels again until 2023.

Natural gas prices also rose appreciably in the reporting year. For example, the Henry Hub gas price (USA) increased by more than 80% over the course of the 2020/21 fiscal year and stood at USD 5.76 per one million British thermal units at the end of September 2021. Alongside the general economic recovery, the price rise was caused in particular by a cold winder and interruptions of supply chains.

Oil and gas prices determine the earnings position of companies active in the oil & gas market and thus also influence Voith Turbo's business in this sector. The unprecedented market slump in the oil and gas industry in 2020 is having an ongoing impact on the current strategies and financial planning of market participants. Industry analysts assume that upstream investments will increase by around 10% in 2021 – after a decrease by one third in the previous year. This means that they are still a long way away from the pre-crisis level. In the refining industry, the extremely challenging year 2020 triggered a wave of announcements of closures in advanced economies, whereas in the developing economies of Asia and the Middle East plans to expand refinery capacities went ahead. All in all, investment in refineries will increase slightly in 2021.

Paper: Covid-19 crisis accelerates structural change

The paper market covers all areas of paper production: from stock preparation and paper production, including surface refinement by calendering and coating, through to reeling paper webs. The Group Division Paper serves this market for all types of paper: board and packaging paper, tissue, specialty paper and graphic paper. Its range of offers includes new lines, rebuilds of entire production facilities, automation technology, digitalization solutions, partial rebuilds, services and spare parts, optimization products, roll covers and fabrics, preparation of primary (pulp) and secondary fiber (wastepaper), and water treatment facilities.

In the reporting year, global paper production rose again slightly after the recession-related decline in the previous year. For the full year 2021, industry analysts expect a production volume roughly at the pre-crisis level. In this respect, the Covid-19 crisis advanced the structural change. Board and packaging papers saw the strongest production growth as a consequence of purchasing behavior being permanently changed by the pandemic towards an an even faster increase in online retail business; graphic paper, on the other hand, remains roughly at the low level of the year 2020 on account of the progressing digitalization of everyday life. Production of tissues and specialty papers increased slightly. Market analysts forecast that these trends will continue. Further growth is expected for all grades in 2022 apart from graphic papers.

On account of the higher production figures, demand for consumables and service offerings increased in the reporting year. The operational side of the aftermarket business remains impaired by the pandemic-related travel limitations, lockdowns and other contact restrictions. The market for new machines and rebuilds, especially in the packaging paper segment, saw an increasing level of investment. There was also a return to more capital expenditure in the fields of specialty paper machines and nonwovens. The most important regional markets were Asia and EMEA. In China, there was firstly particularly high demand for board machines; secondly, China was one of the few countries in which there was demand for graphic paper machines.

Raw materials: boom in demand and high prices stimulate investment activities

We define raw materials as ores and minerals extracted from the earth, such as copper, iron ore and coal along with other geological materials, for instance sediments used as building materials. By contrast, the raw materials oil and gas are considered separately as part of the oil & gas market. The segment of the raw materials market of relevance for Voith is the mining sector, which is supplied by the Group Division Turbo (division Industry).

The raw materials market, which was hard hit in the previous year by a recession-related decline in demand and prices, recovered appreciably in the reporting year. The strong demand associated with the global upswing and occasional supply issues significantly increased the prices of metals and power plant coal to above the pre-crisis level. Experts estimate that the prices of power plant coal will rise by around 30% in 2021 and stabilize in 2022. With regard to copper and iron ore, the 2021 prices are expected to show an increase of 38% and 24%, respectively, on the previous year; a perceptible decline in metal prices is anticipated for 2022, however. The price development is being driven in particular by strong raw materials demand from China.

In the light of the booming demand and investment having been postponed in the previous year, there was a high level of investment activity in the mining industry in the reporting year.

Transport & automotive: commercial vehicle segment with unexpectedly positive development

The transport & automotive market includes diverse transport routes and the means of transport used on them for moving people and goods. The Group Division Turbo (division Mobility) serves this varied market as a specialist for intelligent drive technology, systems and customized services for the commercial vehicle industry, rail sector and marine segment.

After the Covid-19-related decline in 2020, the truck market reacted to government economic stimulus packages and recovered earlier than expected: global production of medium-size (6–15 metric tons) and heavy (> 15 metric tons) trucks rose slightly in the reporting year. The large Chinese truck market followed an anticyclical development. It was in decline as of the second half of 2021 after having shown dynamic growth in 2020 and in the first half of 2021 due to investments being pulled forward. The driving force behind the exceptional boom in the previous year was a government-sponsored fleet renewal program in addition to the introduction of the China VI emissions standard. In the bus market, which had collapsed by around one third in 2020, production figures increased slightly in 2021 but remained far below the pre-crisis level.

The Covid-19-related losses primarily in the passenger rail traffic segment are having a delayed effect on the market for rail vehicles due to the long lead times in procurement but were already making themselves felt in the reporting year. There is uncertainty over the medium term regarding potential cuts in public investment on account of the burdens placed on government budgets in the wake of the Covid-19 assistance measures. The secular growth trend in the rail market driven by climate protection remains intact. Additional opportunities stem from digitalization of rail traffic and harmonization of European railroad systems. The consolidation among manufacturers of rail vehicles and railroad technology that took place in recent years means that competition between suppliers continues to intensify.

The marine market remains at a low level. However, demand for cargo ships has increased again somewhat thanks to the higher level of freight being transported in the reporting year. The situation remained difficult with regard to passenger ships, ferries and tugboats. Stimulus for growth was seen with special-purpose vessels for servicing offshore structures.

A trend toward electrical/hybrid drives and other environmentally friendly technologies aimed at meeting climate targets, as well as toward digital solutions, can be observed in virtually all segments of the transport & automotive market.

II.3. Business development of the Group

II.3.1. Material events

The function of Chief Technology Officer (CTO) was newly created in the reporting year within the Corporate Board of Management. Dr. Stefan Kampmann was appointed CTO, effective December 1, 2020; he had previously held the same position at the Osram Group. Dr. Stefan Kampmann is responsible for the ongoing technological development of the Voith Group. This also includes the former Group Division Digital Ventures, which was integrated into Dr. Kampmann's "Innovation & Technology" portfolio as a cross-divisional function.

In addition, there has been a change in the Corporate Board of Management: effective June 1, 2021, Cornelius Weitzmann became Chairman of the Management Board of Voith Turbo and a member of the Corporate Board of Management of Voith Group. He succeeds Dr. Uwe Knotzer, who left the Company on May 31, 2021 at his own request. Cornelius Weitzmann joined Voith in 2007, most recently heading the division Mobility within the Group Division Turbo.

Dr. Stefan Kampmann and Cornelius Weitzmann report directly to Dr. Toralf Haag, CEO of the Voith Group.

Additionally, we made a further acquisition in the reporting year: in December 2020, we purchased a non-controlling interest in Traktionssysteme Austria GmbH (TSA). TSA is one of the world's leading manufacturers of electric motors, generators and transmissions for rail and commercial vehicles. TSA has a worldwide workforce of around 550 employees. The company is included in Voith's consolidated financial statements as an associate using the equity method and is assigned to the Group Division Turbo.

In the reporting year, we increased our shareholding in our long-standing subsidiary Meri Environmental Solutions GmbH from 65% to 100%. Meri provides sustainable product and process solutions primarily for the paper industry and has on many occasions set technological standards in paper production with its innovations. Founded in 1989 and headquartered in Munich, this company has around 80 employees.

II.3.2. Orders received

Orders received grow by almost one quarter, orders on hand at record level

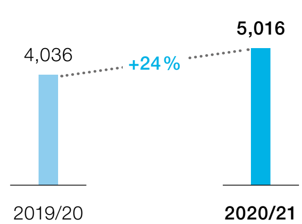
In the 2020/21 fiscal year, we made use of the opportunities presented by the global economic recovery and secured new orders worth €5,016 million within the Voith Group. This corresponds to an increase of almost €1 billion or 24% on the previous year (2019/20 fiscal year: €4,036 million). This means that orders received in the reporting year had already risen above the pre-crisis level (2018/19 fiscal year: €4,697 million).

The negative currency effects of €-96 million are negligible in light of the high level of organic growth. The very good level of orders received is essentially attributable to an excellent large-scale plant business, specifically in the Group Division Paper but also in the Group Division Hydro. In addition, there were positive effects amounting to around €250 million from the acquisitions of BTG, ELIN Motoren, Sintaksa and Toscotec completed in the previous year that were taken into account for a twelve-month period for the first time in the reporting year.

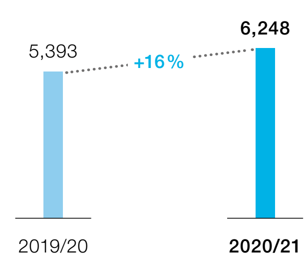
Orders received in the reporting year exceeded our expectations: in the 2020 management report we had forecast a “slight increase”, including the full-year effect in connection with the business acquisitions.

The Voith Group’s orders on hand of €6,248 million as at September 30, 2021 (previous year: €5,393 million) are at an all-time high. The sharp rise will, however, only be gradually reflected in sales growth on account of the long project times customary in the large-scale plant business and the disruptions to the supply chains that still have to be reckoned with.

Orders received Group
in € millions



Orders on hand Group
in € millions

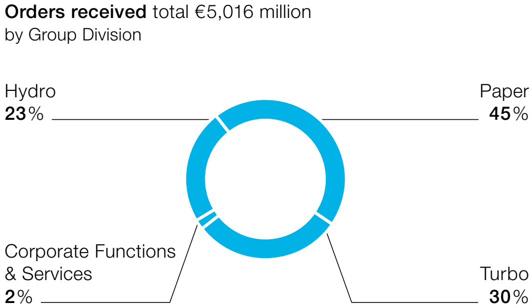


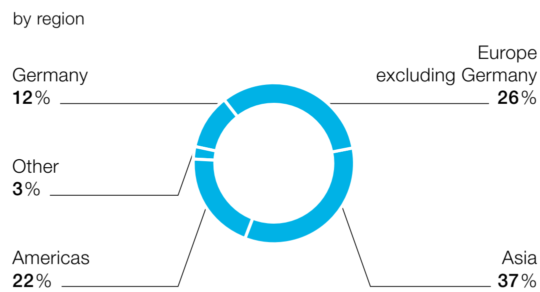
Detailed information on the development of orders received in each Group Division can be found in section II.4. **Business development of the Group Divisions**.

All three Group Divisions generated levels of orders received in excess of our expectations. The strongest growth (+35%) was seen in the Group Division Paper, which operated successfully on the market in a year of intense investment by the paper industry. Voith Paper contributed 45% to the Group's orders received in the reporting year. Likewise with a high percentage growth rate (+32%) but from a low level in absolute terms, orders received increased in the Group Division Hydro, which was awarded contracts for two major projects. In several market segments, the Group Division Turbo benefited from catch-up investments and increased its orders received by 8%, with a favorable full-year effect coming from the acquisition made in the previous year.

In the reporting year, orders received were distributed as follows among the Group Divisions and regional markets:

Orders received total €5,016 million





II.3.3. Sales

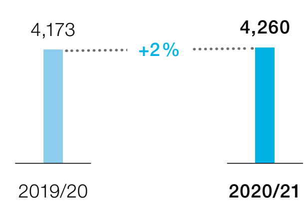
Group sales slightly up

Group sales rose by 2% to €4,260 million (previous year: €4,173 million), thus remaining under the pre-crisis level (2018/19 fiscal year: €4,283 million). Sales benefited in the reporting year from the full-year effect in connection with the business acquisitions made in the previous year of around €170 million. This was counteracted by negative currency effects of €-79 million.

The "slight increase" forecast in the 2020 management report, which included the M&A effect, but not currency effects, was achieved. Adjusted for currency effects, sales rose by 4%.

On account of the long lead times of plant engineering projects, the high level of orders received in the reporting year has not yet impacted sales. In addition, pandemic-related impediments to operations such as travel restrictions and limited access to construction sites as well as disruptions to the upstream supply chains led to delays in project implementation and revenue recognition. The service business was also impeded. In the light of the challenging environment, we consider the level of sales generated to be a good result.

Sales Group
in € millions

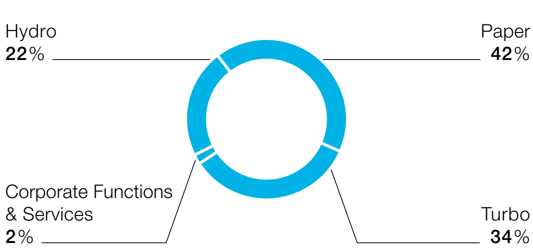


Detailed information on the development of sales in each Group Division can be found in section II.4. **Business development of the Group Divisions**.

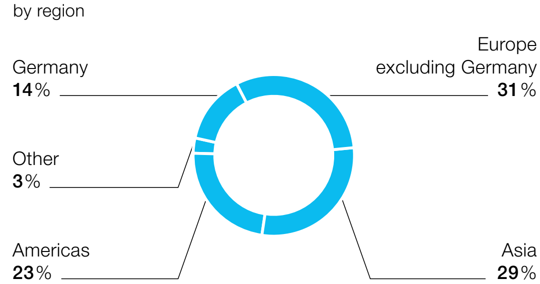
In the Group Divisions Hydro (+/-0%) and Paper (-2%) sales remained roughly stable. The Group Division Turbo (+9%) succeeded in achieving a perceptible increase in its sales especially thanks to good business in the division Mobility and to ELIN Motoren that was acquired in the previous year.

In the reporting year, Group sales were distributed as follows among the Group Divisions and regional markets:

Sales total €4,260 million
by Group Division



by region



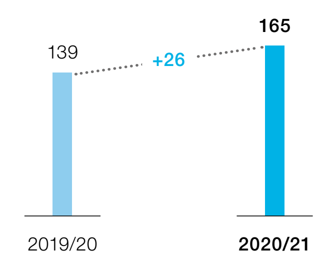
II.3.4. Operating result

Improved profitability

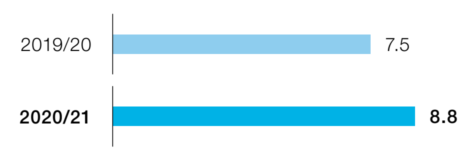
The reporting year's operating result is still showing traces of the Covid-19 crisis and its aftermath. Standing at €165 million (previous year: €139 million), the Group's EBIT rose by 18%, and therefore faster than expected (forecast in the 2020 management report: "slight increase"), but was still below the pre-crisis level (2018/19 fiscal year: €208 million). The return on sales improved to 3.9% (previous year: 3.3%). ROCE rose to 8.8% (previous year: 7.5%) thus likewise exceeding our expectations (forecast in 2020 management report: "slight increase"). The increase in the operating result essentially arises from EBIT growth in the Group Division Paper. The streamlining of the administrative functions also had a positive impact on the operating result.

For our definition of EBIT, we refer to section I.2. **Management system**.

EBIT Group
in € millions



ROCE Group
in %



The main reason for the operating result being low in a multiyear comparison were the pandemic-related impediments to operations described in the comments on sales; these impediments delayed project implementation as well as revenue recognition, and caused additional expenses. An ongoing challenge is additionally posed by the global supply chains that have been disrupted since the beginning of 2020: supply chain interruptions, shortages and increases in the price of raw materials and intermediate products as well as higher logistics costs drove procurement costs upwards.

The development of EBIT furthermore reflects significant investments in the future. For instance, we made a conscious decision to keep our R&D expenditure at a high level in the reporting year despite the challenging environment and in doing so not only drove forward individual product innovations but also the development of fundamental technologies aimed at tapping into strategic growth areas. Furthermore, we invested in our organization. To name one example, we dedicated great effort to further pursuing the multiyear project to introduce a standardized Group-wide ERP system.

Detailed information on the development of EBIT in each Group Division can be found in section II.4. **Business development of the Group Divisions**.

In contrast, the full-year effect in connection with the business acquisitions made in the previous year had a positive effect on the Group's EBIT.

All three Group Divisions generated a positive EBIT for the Group, with the largest contribution coming from the Group Division Paper, which perceptibly increased its EBIT in the reporting year. In the Group Divisions Hydro and Turbo, the operating result stood roughly at the previous-year level.

II.4. Business development of the Group Divisions

II.4.1. Hydro

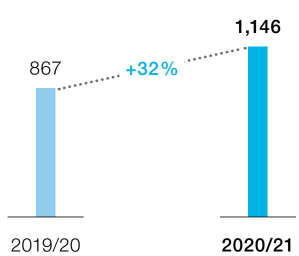
Increased orders received

The Group Division Hydro looks back on a challenging fiscal year. In a market environment still negatively impacted by the Covid-19 pandemic, we achieved a rise in orders received that will, however, only be reflected gradually in sales growth. Sales remained stable in the reporting year. EBIT and ROCE declined.

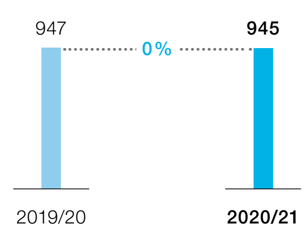
Key financial performance indicators

The Group Division Hydro's key financial performance indicators for the 2020/21 fiscal year are as follows:

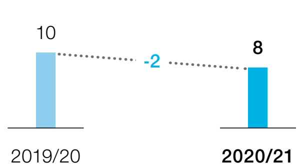
Orders received Hydro
in € millions



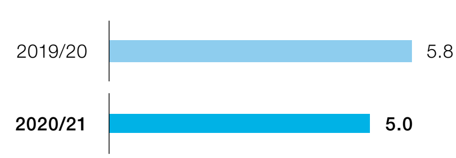
Sales Hydro
in € millions



EBIT Hydro
in € millions



ROCE Hydro
in %



Hydropower market remains at a low level

In the 2020/21 fiscal year, the hydropower market continued to be marked by the Covid-19 crisis. The global volume of contracts awarded rose slightly in comparison to the low previous-year figure but remained appreciably below the pre-crisis level in the light of strained government budgets and difficulties with the financing of private projects. The measures aimed at containing the pandemic impeded the handling of projects and the performance of service and other construction-site activities.

Good level of orders received

In the reporting year, Voith Hydro's level of orders received was significantly higher than the very low previous-year level. With growth of 32%, we exceeded the forecast ("slight increase") published in the 2020 management report. As at September 30, 2021, orders on hand stood at €3,194 million (previous year: €2,908 million).

The main reason for the good development of orders received were two major projects in Eastern Europe and North America. To name one, Voith was awarded a contract for the planning, supply and installation of important electromechanical components within the scope of the modernization of the Robert Moses hydropower plant on the Niagara River in the State of New York. This means that we are working on one of the largest hydropower projects currently underway in the USA. In the light of the fact that the volume of contracts awarded in the North American market has tended to hover at a low level for years and is characterized by just a few major modernization projects, winning the New York Power Authority contract was an encouraging success for Voith. In South America, too, we were granted one of the few substantial orders currently being awarded. We received an order to renew the electromechanical equipment as part of the modernization of Brazil's Paulo Afonso IV run-of-river hydropower plant, built in 1979.

We succeeded in securing several orders in the field of pumped storage plants, thus underpinning our technological and market leadership. For example, we were awarded an extensive contract within the scope of the new Manara power plant in the north of Israel. The order includes the delivery and installation of the electrical and mechanical equipment for the complete power unit – comprising pump turbine, motor-generator and control equipment, including subsystems. Furthermore, once the power plant has been completed, we will be responsible, along with other partners, for its maintenance and operation over the first three years. For the new Kühtai 2 pumped storage power plant in Austria we were selected to supply the pump-turbines along with the required subsystems.

Sales trend stable

Our sales situation continued to be strongly impacted by the effects of the Covid-19 pandemic. Project handling was impeded, firstly by local lockdowns and limited access to construction sites and, secondly by the ongoing disruptions to global supply chains: both led to delays in project implementation and revenue recognition. Furthermore, the subdued level of orders received in the service business, which typically involves revenue from the orders being recognized quite quickly, had a negative impact. In the light of this, the sales of the Group Division Hydro remained at the level of the previous year and thus below our expectations (forecast in 2020 management report: "slight increase").

Looking at the regional distribution of sales, North America, Europe (including Germany) and Asia were virtually on a par.

Operating result remains at a low level

EBIT in the Group Division Hydro continued to hover at a low level. The "appreciable increase" forecast in the 2020 annual report for EBIT and ROCE did not eventuate. Alongside sales volume falling below budget, the slight decrease in operating result on the previous year is also attributable to the completion of orders that were posted under high price pressure in weak market phases. The return on sales stood at 0.8% (previous year: 1.1%).

Innovations

One focus of development in the Group Division Hydro spanning several years relates to modularization of the product portfolio. After completing the first two technology modules in the previous year, our work in the 2020/21 fiscal year mainly comprised adapting our IT to the modified processes and providing systems-side support to the progressing modularization of Hydro's portfolio.

In the field of turbines, Voith was working on several topics over the reporting year. Within the framework of the "Innovations for the Energy Transition" research project funded by the German Federal Ministry for Economic Affairs and Energy, Voith is participating in the "Francis+" subproject. The objective is to develop a type of turbine for flexible deployment in areas of operation in which Francis turbines have not traditionally been used. Extensive materials tests were completed at Stuttgart Materials Testing Institute in the reporting year that provided us with the data necessary for proving the structural durability in the extended field of application.

The FITHydro project performed under the EU-funded Horizon 2020 program came to a successful conclusion in the reporting period. The aim was to rate the environmental compatibility of hydropower plants in an objective manner and to identify possibilities for improvement. Together with the project partners, Voith refined the calculation programs for the passage of fish through water turbines and successfully performed a pilot test using a prototype of this technology.

Further innovations were driven forward in the area of generators. Special mention should be given in this context to the further development of the high-voltage insulation system. This system has now become more environmentally friendly through the use of a new chemical component.

Furthermore, in May 2021, the Group Division Hydro presented a new generation of hydraulic turbine governors, the HyCon GoHybrid. The governor combines the safety of conventional systems, such as high- or low-pressure units, with the advantages of novel technologies, through which a drastic reduction of the oil and energy consumption is achieved. The general market launch took place after the HyCon GoHybrid had been successfully in use at a first pilot customer since the end of 2020.

II.4.2. Paper

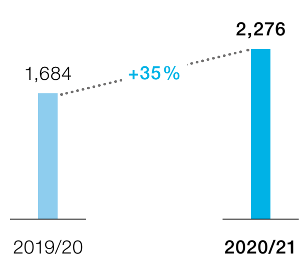
Strong investment activity in the paper industry, high level of orders received

The Group Division Paper made use of the opportunities from the improved market environment. In the light of strong investment activity in the paper machine market, orders received in the reporting year increased by just over one third. There was a stable sales trend as expected. The background to this development was the low level of orders received in previous years and the operating challenges as a consequence of the Covid-19 crisis; in contrast, Voith Paper benefited from positive effects from the business acquisitions made in the previous year. The operating result rose, essentially due to the full-year effect from the business acquisitions made in the previous year. The forecasts published in the 2020 management report were exceeded not only with regard to orders received but also to EBIT and ROCE.

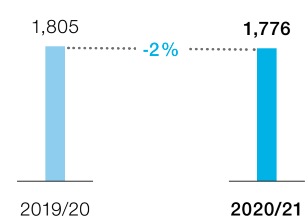
Key financial performance indicators

The Group Division Paper's key financial performance indicators for the reporting year are as follows:

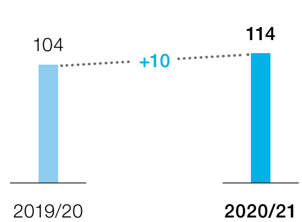
Orders received Paper
in € millions



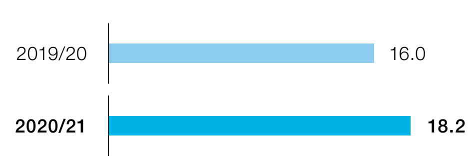
Sales Paper
in € millions



EBIT Paper
in € millions



ROCE Paper
in %



Orders received at record level

In the 2020/21 fiscal year, the Group Division Paper increased its volume of orders received by 35% to €2,276 million. This is the highest level ever generated in the history of Voith Paper. Orders on hand in the Group Division Paper increased to €1,741 million as at the end of the fiscal year on September 30, 2021 (September 30, 2020: €1,247 million).

This development is attributable in particular to a very high level of contract awarding activity in the project business (new lines and rebuilds). The paper machine market recovered earlier than expected and went through a year of extraordinarily intense investment. In this respect, the Covid-19 pandemic even further accelerated the structural change: in the wake of the booming online business, paper manufacturers invested intensely in new lines and rebuilds for the production of packaging paper, while capacities for manufacturing graphic papers are being cut back even further around the world. The business with consumables, spare parts and services also expanded on account of the return to rising paper production.

The Group Division additionally benefited from a positive effect from the two acquisitions completed in the previous year: the contribution by BTG (consolidated since December 1, 2019) and Toscotec (consolidated since May 1, 2020) to the Voith Group was taken into account for the twelve-month period for the first time in the reporting year. But even from a purely organic standpoint, i.e. without taking this effect into account, Voith Paper's orders received rose appreciably. The development of Voith Paper's orders received exceeded our expectations. In the 2020 annual report we had, including the full-year effect at BTG and Toscotec, forecast a "stable development".

Orders received in the project business were dominated by new lines and rebuilds for the production of board and packaging paper. For example, as a full-line supplier we were awarded a contract by Chinese pulp and paper manufacturer Asia Symbol to supply a complete board production line. Nine Dragons Paper, the biggest manufacturer of packaging paper in China, entrusted Voith with building several paper machines, including three machines for the production of testliner and white top testliner. We received an order from Turkish paper manufacturer Modern Karton to build and deliver a complete high-speed production facility for the production of recovered corrugated containerboard base paper.

Stable sales trend

The sales trend was within our expectations and reflects the low volume of orders received in the project business in the two previous years. Over and above this, disruptions in the upstream supply chains in some cases led to delays in our own deliveries and thus in revenue recognition. Unit sales of consumables remained subdued on account of paper production remaining below the pre-crisis level; the service business was impeded over long periods of the fiscal year due to the measures aimed at containing the Covid-19 pandemic.

Negative currency effects reduced the Group Division Paper's sales by €43 million. Adjusted for currency effects and taking account of the full-year effect in connection with the business acquisitions made in the previous year (+ €103 million), sales remained stable as forecast in the 2020 management report.

The region with the strongest sales in the reporting year was Europe (including Germany), followed by Asia and North America.

Operating result increased to a high level

The Group Division Paper was able to increase its EBIT by 10% to €114 million in the reporting year. This means that return on sales improved to 6.4% (previous year: 5.7%). ROCE rose to 18.2%. The increase in EBIT is largely attributable to the full-year effect in connection with BTG and Toscotec described above. Impediments to operations such as disrupted supply chains and higher prices for raw materials and components prevented substantial organic growth in earnings. All in all, Voith Paper's earnings situation developed better than expected. In the 2020 management report, we had forecast a "slight decline" in both EBIT and ROCE taking account of the positive M&A effects.

Material events

Voith joined the 4evergreen sustainability alliance in the 2020/21 fiscal year. The goal of this European cross-industry alliance is to increase the recycling rate of fiber-based packaging in Europe to over 90% by 2030. The alliance comprises more than 60 companies including paper and board manufacturers, packaging producers and converters as well as research institutes and technical universities. Together, the members are working on innovative concepts to find solutions to global societal challenges, such as climate change and resource scarcity, with the help of fiber-based packaging.

Innovations

The innovation strategy of the Group Division Paper aims at sustainable, resource-saving paper production and efficiency increases. Digitalization and artificial intelligence (AI) plays a prominent role in this context.

In September 2021, we opened the world's most modern pilot coater in the Voith Paper Technology Center at our headquarters in Heidenheim, thus pointing the way for the development of sustainable packaging papers. Environmental pollution due to plastic waste is one of the greatest challenges of our time. Versatile barrier papers that are recyclable and ideally biodegradable are a sustainable alternative to petroleum-based packaging. The coating of such papers is a demanding process. The extensively rebuilt and fully modernized pilot coater enables us to offer our customers the possibility of conducting extremely flexible pilot tests with different coating variants for all grades of specialty papers, graphic papers, as well as board and packaging papers.

Likewise in the field of sustainable packaging solutions, we entered into a development partnership with the Optima Group in the reporting year. The objective of the alliance is to develop sustainable paper packaging solutions for a wide range of industries. This is the first time that two companies from different phases in the supply chain are working together on developing environmentally compatible alternatives to plastic packaging. Optima is a provider of solutions and systems that supports companies worldwide with filling and packaging machines for the pharmaceutical, consumer goods, hygiene paper and medical device markets.

In the reporting year we presented our vision of the paper production line of the future. This is a holistic concept that takes account of all aspects of paper production and aims in particular at efficiency, ease of maintenance and sustainability. The focus areas are on implementing a "clean design" for more efficiency, an interruption-free production process as well as on state-of-the-art digitalization and automation solutions in combination with artificial intelligence. One part of the paper production line of the future is a new user interface that is planned to be introduced throughout the entire paper production process, from stock preparation through to reeling. The new user interface is designed to provide maximum operating efficiency and minimum complexity. This is achieved by the user interface offering a comprehensive overview of all relevant parameters with an integrated dialog and optimization function. Enabling targeted interventions and quicker reaction times makes it possible to avoid machine downtimes, save on resources and operating costs as well as increase production capacity.

Likewise in the reporting year, we launched the OnCare.pmPortal on the market. This is a digital asset management tool that simplifies data and inventory management for paper manufacturers, giving them an overview of products and consumables – a task that typically involves a considerable amount of administrative work. The OnCare.pmPortal enables paper manufacturers to increase the transparency of product data and optimize the efficiency of the procurement system. At the same time, plant availability is increased by facilitating predictive planning of maintenance periods and downtimes. Thanks to a direct connection to the Voith Paper Webshop, registered components can be reordered quickly, easily and without any risk of confusion.

In December, the Group Division Paper launched its OnPerformance.Lab, a Remote Service Center for optimization of paper production. With this service, we are offering paper manufacturers the opportunity to exploit the full potential of their data and identify improvement potential for their production through an in-depth analysis of process data. Within the scope of a service agreement, we support our customers with AI-assisted analysis and evaluation methods in combination with the expertise of our engineers to increase the performance and availability of their production lines and reduce the use of resources in the papermaking process.

Over and above this, the Group Division Paper launched numerous product innovations on the market once again in the 2020/21 fiscal year. The products introduced in the reporting year include, for example, IntensePress, an innovative roll cover and CurvedBar, a new screen plate for recovered paper pulping with appreciably longer service lives.

II.4.3. Turbo

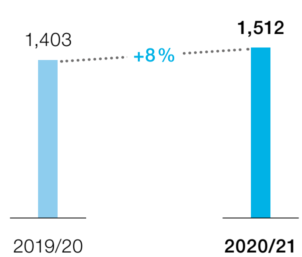
Growth in orders received and sales

The Group Division Turbo looks back on a challenging 2020/21 fiscal year. On the one hand, we benefited from catch-up effects in both divisions, Mobility and Industry, following the Covid-19-related market collapse in the previous year. On the other hand, business continued to be impacted by disruptions to supply chains and higher logistics costs. Voith Turbo made use of the opportunities presented by the market recovery and exceeded our expectations with perceptible growth in orders received and sales. EBIT remained roughly stable and ROCE declined slightly.

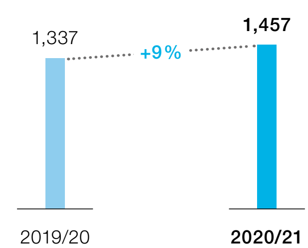
Key financial performance indicators

The Group Division Turbo's key financial performance indicators developed as follows in the 2020/21 fiscal year:

Orders received Turbo
in € millions

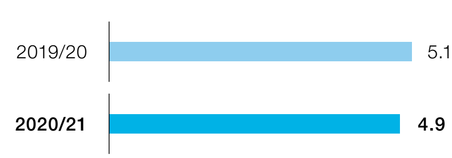


Sales Turbo
in € millions



EBIT Turbo
in € millions

ROCE Turbo
in %



Orders received above expectations

The Group Division Turbo achieved a perceptible increase in its orders received. Both divisions benefited from catch-up effects after the recession in the previous year and contributed to the growth. The Group Division additionally benefited from a positive effect from consolidation for the first time for a twelve-month period (previous year: five months) of the majority shareholding in ELIN Motoren GmbH that was acquired in spring 2020. Even from a purely organic perspective, the Group Division's orders received were slightly up on the previous-year level, thus exceeding our expectations. In the 2020 annual report we had, taking account of the full-year effect at ELIN Motoren GmbH, forecast a “stable development”. Voith Turbo’s orders on hand increased to €1,285 million as at September 30, 2021 (previous year: €1,216 million).

In the division Mobility orders received saw a slight increase again in the reporting year following a recession-related drop in the previous year. The commercial vehicle industry developed better than anticipated. Higher production figures also caused our business with retarders for trucks and DIWA automatic transmissions for city buses to gain momentum. This business took a very positive course particularly in the first nine months of the fiscal year before weakening towards the end of the fiscal year as the commercial vehicle industry began to increasingly suffer from shortages of materials and supply difficulties that in some cases led to customers stopping production. Our business in the rail segment was marked by delays in the awarding of contracts in the reporting year. Over the medium term, the rail market is benefiting from the increasing focus on rail traffic as an environmentally friendly means of transport and from progressing urbanization. As in previous periods, the marine industry struggled with a very low market level caused by excess capacities and exacerbated by the Covid-19 crisis. The trend towards carbon-neutral sustainable drives offers growth opportunities in all mobility segments. The electric Voith Schneider Propeller (eVSP) launched in the previous year made a positive contribution to orders received for the first time in the reporting year.

Detailed information on the development of the markets relevant for Voith Turbo for energy, oil & gas, raw materials, transport & automotive can be found in section II.2. **Macroeconomic and industry-specific environment**.

The division Industry succeeded in appreciably increasing its orders received in the 2020/21 fiscal year. After all sales markets served by the division Industry – raw materials, oil & gas and energy – had been severely impacted by the Covid-19 crisis in the previous year, investment activity recovered in virtually all relevant customer industries in the 2020/21 fiscal year. Investment in the mining industry, which benefited from strong demand for raw materials and perceptibly rising prices in the reporting year following the Covid-19-related massive market collapse in the previous year, rose significantly. The oil & gas industry likewise underwent a positive development and, in the light of recovering prices, increased its investments on the crisis year 2020. The market for power plant technology and the steel industry also showed signs of a recovery.

ELIN Motoren, which manufactures electric motors and generators for industrial applications, such as wind energy converters, and which was acquired in the previous year, saw a very positive development in the reporting year and contributed to the good development of the division Industry. But even without taking into account this company which was consolidated for a twelve-month period for the first time, the division’s orders received would have risen slightly.

Sales grow by 9%

The sales growth of 9% was also above our expectations (forecast in the 2020 annual report: “slight increase”). Both divisions contributed to this pleasing performance: the division Mobility returned perceptible organic growth while the division Industry benefited from the full-year effect in connection with ELIN Motoren. The service business, where revenue is typically recognized quite quickly, continued to be negatively impacted in the division Industry by contact restriction measures to contain the pandemic enacted in individual regions.

Earnings roughly at previous-year level

As forecast in the 2020 management report, EBIT in the Group Division Turbo saw a stable development, standing at €41 million (previous year: €42 million). The return on sales fell slightly to 2.8% (previous year: 3.1%). The fact that the positive sales trend was not reflected in Voith Turbo’s operating result is essentially due to expenditure on the transformation of the Group Division's structure and product portfolio. ROCE was similarly in a slight decline due to an increase in the capital employed; the forecast stable development was not achieved.

Material events

In December 2020, we made a further acquisition in one of our strategic growth areas, electrical drive systems, namely a non-controlling interest in Traktionssysteme Austria GmbH (TSA). TSA is one of the world's leading manufacturers of electric motors, generators and transmissions for rail and commercial vehicles. TSA has a worldwide workforce of around 550 employees. The company is included in Voith's consolidated financial statements as an associate using the equity method.

Innovations

R&D work in the Group Division Turbo over the reporting year continued to concentrate on the electrification of power trains and on the digitalization of our product portfolio.

The world's major economies – the United States of America, the European Union and the People's Republic of China – have set themselves the target of becoming climate neutral by 2050 (USA and EU) and by 2060 (China), respectively. As part of this process, they are fostering the expansion of e-mobility and a shift of freight traffic and passenger transport onto rail. Voith intends to live up to its role as technology leader and to contribute to the success of the "shift towards e-mobility" with solutions for forms of transport that are as sustainable as they are efficient.

With this objective in mind, we are developing for the commercial vehicle sector not only battery-powered electrical drives but also solutions for fuel cell drives. One important innovation made in the division Mobility is the addition of a new motor option for our fully electric VEDS (Voith Electrical Drive System) drive, launched in 2019. In the reporting year, we presented a second motor version for lighter commercial vehicles, including the appropriate inverter. The MD (medium duty) version of the VEDS is designed for use in solo buses and trucks up to 19 metric tons and has been optimized for purely urban use. On the other hand, the existing HD (heavy duty) version performs especially well in double-decker and articulated buses or trucks over 26 metric tons and is also suitable for interurban driving profiles. The VEDS not only supports battery systems from a wide range of manufacturers but is also enabled for future use in fuel cell electric vehicle drivetrains.

Over the medium term, electrical drive concepts will force conventional drives into a niche. Particularly the heavy-load segment with trucks, buses, rail vehicles or ships will, nevertheless, still require internal combustion engines over the next few years – albeit state-of-the-art versions that meet the very ambitious emissions standards and can be operated with a reduced, if not even neutral, carbon footprint. For this reason, we are also dedicated to the refinement of established technologies. As a bridging technology for urban and interurban buses and coaches, we presented the next generation of our well-known DIWA automatic transmission in the reporting year: for the DIWA NXT, we have further optimized virtually all modules of the transmission unit to achieve optimized efficiency. Over and above this, we are employing the DIWA NXT to also pursue a strategy of mild hybridization. For the purpose of hybridizing buses, the DIWA NXT is optionally available with a central recuperation unit (CRU) that uses energy recovery during operation to appreciably reduce the vehicle's fuel consumption and carbon emissions. The DIWA NXT will initially enter field testing in the 2021/22 fiscal year and is expected to be broadly marketed as of summer 2022.

For rail, too, Voith is driving forward important innovations, and offers sustainable, efficient solutions both for passenger transport and rail freight traffic. One of our lighthouse projects is the CargoFlex digital automatic freight coupler that we introduced in 2019 and have continually refined since then. After adding a digital component in the previous year, the function of automatic uncoupling was implemented for the first time in the reporting year. CargoFlex considerably increases efficiency in rail freight traffic because the automatic coupler renders the time-consuming, physically demanding and hazardous task of manually uncoupling and coupling freight cars unnecessary: pneumatic and electrical lines are connected automatically, as is an additional data transmission line. With solutions such as the CargoFlex, we intend to position ourselves as a pioneer of the intelligent rail freight traffic of the future. The Voith CargoFlex has been in successful use in commercial rail freight traffic at Swiss Federal Railway's SBB Cargo AG subsidiary since 2019. As improving performance is an important prerequisite for shifting freight traffic onto rail, the European Union has established, among other things, an initiative to introduce an EU-wide standardized automatic coupling, the European DAC Delivery Programme (EDDP). Within the scope of this initiative, Voith participated in a test series of the German Federal Ministry of Transport with its CargoFlex in the reporting year. The important decision on the design of the coupler head that is to be deployed as the European standard for the digital automatic coupler was made in September 2021: the Sharfenberg type, that is also used in the Voith CargoFlex, was chosen.

In the division Industry, various product innovations were introduced on the market in the 2020/21 fiscal year. For example, we have extended our range of torque limiting couplings with the introduction of the SafeSet EZi. Suitable for a wide range of industrial applications, Voith SafeSet torque limiting couplings facilitate an immediate release at a preset torque in the event of a torque overload. This protects power trains and maximizes productivity. The new EZi model builds on trusted technology with proven accuracy and reliability and now additionally offers a peak shaving function: an improved release mechanism facilitates protection during short transient peak torques without releasing completely. Instead, this allows for particularly quick and easy resetting.

In the field of turbo gear units, we have developed a version of our parallel shaft gear unit tailored to the specific needs of the large Indian market. With the localized product version we succeeded in concluding an extensive framework agreement on speed-increasing gearboxes in the reporting year with one of the largest mechanical and plant engineering companies in India's energy and infrastructure sector. The components from Voith are used for oxidation blower applications in flue gas desulfurization (FGD) in coal-fired thermal power projects. India is seeing increasing demand for desulfurization units because the Indian government has recently introduced strict emissions standards for thermal power plants.

Over and above this, we have introduced OnCare.Health Vorecon. The digital data diagnostic system supports the maintenance management of Voith Vorecon variable-speed planetary gears. Unlike conventional machine protection systems in the power, oil and gas industries, OnCare.Health Vorecon is self-learning.

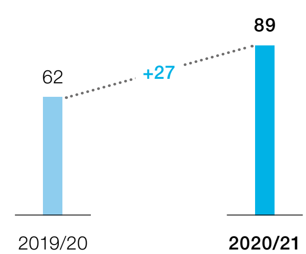
II.5. Economic position

II.5.1. Earnings position

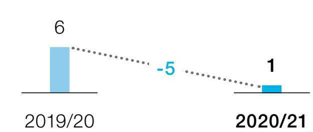
Increase in operational result

The Voith Group's statement of income for the reporting year continues to be marked by the Covid-19 crisis and its aftermath. The operational result rose sharply due to cost-cutting, especially in the field of human resources and in other operating expenses. The Group net result was slightly down on the previous year's level, which was essentially due to lower interest income and higher tax expenses in connection with deferred taxes.

Operational result Group
in € millions



Net result Group
in € millions



Total output in the Voith Group stood at €4,340 million (previous year: €4,189 million). The trajectory of total output (+4%) was slightly above the sales development (€4,260 million, +2%) as a consequence of a build-up of inventories in work in progress.

Cost of materials rose by 8% to €1,978 million (previous year: €1,828 million). The ratio of cost of materials to total output increased to 45.6% (previous year: 43.6%). Alongside higher materials prices, a change in the sales mix also contributed to the increase in the ratio of cost of materials to total output: due to the pandemic, the share of the typically less material-intensive service business in Group sales decreased while the share of project business increased.

Personnel expenses stood at €1,516 million (previous year: €1,501 million; up 1%). After deducting the full-year effect in the context of the business acquisitions made in the previous year, personnel expenses declined slightly. This development arose from job cuts following on from internal programs to boost efficiency that involved, for example, the streamlining of administrative functions. Ongoing increases in personnel expenses in connection with collectively bargained pay rises had the opposite effect. The fact that the personnel expenses ratio (ratio of personnel expenses to total output) of 34.9% was down on the previous year (35.8%) also shows that these measures are working.

Depreciation and amortization amounted to €170 million (previous year: €168 million, +1%). The ratio of depreciation and amortization to total output decreased slightly to 3.9% (previous year: 4.0%).

The net balance of other operating expenses and income improved perceptibly to €-587 million (previous year: €-631 million, -7%). This development was mainly caused by a decline in materials costs and in expenses from additions to provisions of €44 million to €200 million (previous year: €244 million, -18%). The decline in the other operating income of €35 million that is included in this net amount had the opposite effect. Currency gains and insurance claims were the primary driver of the decrease.

Detailed information on the development of EBIT can be found in section II.3.4. **Operating result**.

The operational result increased by 45% to €89 million (previous year: €62 million). EBIT is obtained by eliminating non-recurring items and performing other adjustments. EBIT, the important financial performance indicator for the Group, increased by 18% to €165 million in the reporting year (previous year: €139 million).

Share of profit/loss from companies accounted for using the equity method stood at €-6 million, slightly up on the previous-year figure (previous year: €-8 million).

The balance of interest expenses and interest income stood at €-22 million (previous year: €0 million). The decrease is essentially attributable to a decrease in interest income from €21 million to €4 million from the measurement of financial liabilities on account of termination rights of non-controlling interests. The other financial result was unchanged at €19 million (previous year: €19 million, +0%).

The result before taxes increased by 9% to €80 million (previous year: €73 million).

Income taxes totaled €74 million (previous year: €60 million). The tax rate increased to 92% (previous year: 82%). The increase is primarily attributable to the impairment of deferred tax assets.

The net result from continuing operations decreased to €7 million (previous year: €13 million).

The net result from discontinued operations improved to €-5 million in the 2020/21 fiscal year (previous year: €-7 million). As in the previous year, this relates to the contribution to earnings from the merQbiz activities that were abandoned in the reporting year.

All in all, the Group net result was still slightly positive at €1 million even in this second year overshadowed by the Covid-19 pandemic and its macroeconomic consequences (previous year: €6 million).

II.5.2. Net assets position

Net assets still stable

In comparison to September 30, 2020, total assets decreased by €103 million to €5,114 million (previous year: €5,217 million, -2%). The decline is essentially due to a sharp reduction in deferred tax assets and a lower level of bank loans.

In total, non-current assets were reduced by €129 million to €2,271 million (previous year: €2,400 million, -5%). The €28 million increase in investments accounted for using the equity method to €49 million (+130%) mainly results from the acquisition of a non-controlling interest in Traktionssysteme Austria GmbH (TSA). The decline in deferred tax assets to €92 million (previous year: €245 million, -62%) is attributable in particular to impairments of deferred tax assets on temporary differences in pension provisions recognized outside profit or loss.

Current assets underwent a roughly stable development and came to €2,843 million (previous year: €2,817 million, +1%). While inventories increased by €90 million to €681 million (+15%) and trade receivables by €69 million to €744 million (+10%), there was a decrease in securities of €72 million to €51 million (-58%). The increase in inventories is mainly due to higher volumes of work in progress. Furthermore, cash and cash equivalents dropped by €71 million to €511 million (-12%).

II.5.3. Financial position

Solid financial position

Non-current liabilities decreased by €85 million to €1,707 million (previous year: €1,792 million; -5%). The reduction in non-current liabilities is mainly due to the pension provisions decreasing by €26 million to €800 million (-3%) and other financial liabilities being reduced by €29 million to €92 million (-24%) and deferred tax liabilities by €29 million to €54 million (-35%). The decrease in pension provisions is primarily attributable to higher discount rates in comparison to the previous year. The decrease in other financial liabilities was caused mainly by the payment of part of the purchase price for an acquisition made in the previous year.

Current liabilities increased slightly by €50 million to €2,392 million (+2%). The increase in current liabilities is mainly the result of the €94 million increase in contract liabilities to €939 million (+11%) and of the increase in trade payables of €32 million to €570 million. In contrast, bank loans fell by €62 million to €79 million (-44%).

The net balance of deferred tax assets and liabilities decreased by €125 million. The reduction is mainly due to impairment of deferred tax assets on temporary differences.

Equity decreased to €1,015 million (previous year: €1,083 million, -6%). This was mainly due to negative other comprehensive income of €-43 million and the distribution of dividends. The equity ratio stood at 19.8% (previous year: 20.8%).

Cash flow from operating activities remains clearly positive

The main components of the cash flow statement in the reporting year break down as follows:

Development of cash flow
in € millions

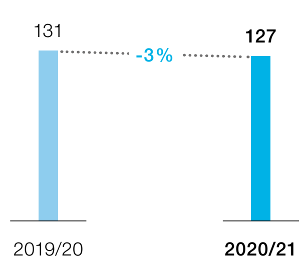
	2020/21	2019/20
Cash flow from operating activities	144	234
Cash flow from investing activities	-85	-266
Cash flow from financing activities	-148	232
Total cash flow	**-89**	**200**

The cash flow from operating activities was clearly positive in the 2020/21 fiscal year at €144 million. In comparison to the previous year, it was €90 million lower. Payments to increase inventories and a higher level of trade receivables were the main factors in this decline.

The cash flow from investing activities amounted to €-85 million in the reporting period (previous year: €-266 million). While payments of €414 million were made in the previous year for the acquisition of consolidated companies, in the reporting year such payments only came to €17 million. This amount was used to settle part of the purchase price of an acquisition completed in the previous year. The purchase and sale of securities gave rise, on balance, to proceeds of €75 million (previous year: €232 million). The securities were mainly term deposits with individual maturities of more than 90 days. Net receipts and payments for property, plant and equipment, and intangible assets amounted to €-106 million (previous year: €-83 million).

In the 2020/21 fiscal year, we invested a total of €127 million (previous year: €131 million) in property, plant and equipment, and intangible assets. The rights of use under leases amounting to €15 million (previous year: €35 million) were taken into account here pursuant to IFRS 16.

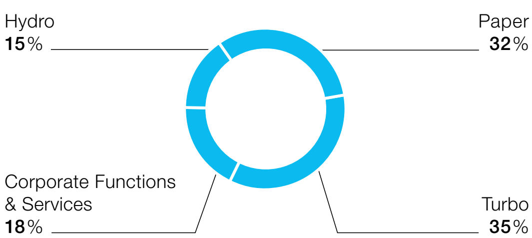
Investments Group
in € millions



As a percentage of the Group's sales, our investment ratio came to 3.0% in the reporting year (previous year: 3.1%).

The investments broke down as follows across the various Group Divisions:

Investments total €127 million
by Group Division



Financial liabilities reduced as planned

In November 2020, one tranche of the note loan issued in 2015 amounting to €102 million was repaid as scheduled. This means that there are now only two tranches of this note loan outstanding with a total of €59 million. The note loan issued in February 2020 amounting to €400 million has maturity dates in 2025, 2027 and 2030.

The revolving syndicated loan in China, which was refinanced in 2019, will be available until June 2024; it is for an amount of €176 million. This facility is currently not being utilized. The full amount of the syndicated euro loan of €550 million dating from 2018 and maturing in April 2025 is available for use.

In July 2020, bilateral confirmed cash lines totaling €375 million were entered into with four partner banks with terms of two to three years. These credit lines have also not been utilized and are extended on an annual basis.

In addition, Voith uses free bilateral bank credit lines for low-interest financing of fluctuations in working capital. These long-term and diversified instruments facilitate sustainable growth. The availability of a stable liquidity position from its own bank balances and existing loan agreements is given top priority by Voith – especially in the light of the imponderables regarding the further course of the Covid-19 pandemic.

Payments for dividends fell to €-31 million (previous year: €-61 million).

The cash flow from financing activities decreased in total to €-148 million (previous year: €232 million).

Total cash flow stood at €-89 million (previous year: €200 million).

Net liquidity still at a good level

The net liquidity of the Voith Group, defined as the difference between liquid financial assets and interest-bearing financial liabilities (not taking lease liabilities into consideration), remains at a good level even after the last purchase price payments from the acquisition activity in the previous year. At the end of the reporting year, it amounted to €-5 million (previous year: €71 million). Without any acquisition activity, net liquidity would have remained virtually unchanged in comparison to the previous year. The net liquidity indicator is not defined under International Financial Reporting Standards (IFRS) accounting policies, which means that its definition and calculation may differ from the practice in other companies.

Fundamentals and objectives of financial management

The key objective of liquidity and financial management is to make sure at all times that the Voith Group is able to continue as a going concern and to ensure the financial independence of the family-owned business.

Cash management is the task of the Group's treasury function as well as the related regional finance centers. The Group maintains cash pooling systems in Europe, China, India and North America, which it uses to concentrate its cash and cash equivalents as far as possible (where legally permissible) and lower interest expenses caused by external debt financing. Borrowings are generally taken out by Voith GmbH & Co. KGaA and provided to the Group companies when needed.

III. Risks and opportunities

III.1. Risk and opportunities management

Geared towards increasing the value of the Company

Entrepreneurial activity involves making decisions under conditions of uncertainty. Risk is therefore an integral part of entrepreneurial activity. To safeguard against risks that could jeopardize the Group or its companies as a going concern, Voith operates a consistent and binding Group-wide risk management system. Risks to the Group's ability to continue as a going concern are defined as aggregate risk potential that threatens more than 50% of equity or more than 10% of sales.

All the elements of risk management have been brought together in a risk management system. This is not only geared to compliance with legal requirements, it should also contribute to increasing the value of the Group and its companies by reducing potential risks and their probability of occurrence. At the same time, the system is intended to produce a state of equilibrium between correctly assessed risks and the exploitation of opportunities.

Voith distinguishes between two overarching risk groups with a total of six risk categories:

1. Risks to the Group
   - External risks
   - Management risks
   - Liquidity and financial risks
   - Infrastructure risks
2. Risks to performance
   - Contractual risks
   - Technical risks

Risk management at Voith is organized on a decentralized basis but is monitored and coordinated centrally. Responsibilities are clearly defined for the differentiated risk profiles at all levels of the Group.

The risk management process itself breaks down into four stages:

- Risk identification: Voith constantly monitors macroeconomic developments, developments in specific industries and internal business processes that could affect the situation of the Group. A risk catalog helps identify individual risks.
- Risk analysis and assessment: The risks identified in this way are assessed in terms of potential impact and their probability of occurrence. Wherever possible, the potential impact is quantified as a cost factor. In order to assess the potential risk the worst-case scenario and a realistic scenario are analyzed for each identified performance risk, and their impact on the financial situation of the Group is examined. This involves monthly reporting to the Corporate Board of Management of those individual risks with a maximum risk impact of >€5 million or a realistic risk impact of >€2 million, including the measures taken to mitigate this risk such as existing insurance policies, recognized provisions or recorded depreciation.

- Risk management: Analysis and assessment of the identified risks gives Voith's management the data it needs to decide whether the risks should be avoided, reduced by suitable actions, transferred by signing appropriate agreements, or whether they have to be carried by means of optimized processes and controls.
- Risk monitoring and reporting: Voith has a multi-tiered set of controlling and reporting tools that help the Corporate Board of Management analyze risks and make well-founded decisions.

In addition to the systematic management of risks, it is also essential that we support our business performance by actively managing opportunities. The identification of opportunities and their strategic and financial assessment play an important role in the strategy discussions the Corporate Board of Management holds regularly with those responsible for the operating units. The results of these meetings are incorporated into the Voith Group's strategic decisions as well as into the medium-term planning and the annual operative planning process.

III.2. Accounting-related internal control system

Proper and reliable financial reporting

The key elements of the internal control and risk management system for the Group's financial reporting process are described in the following. The aim of the accounting-related internal control and risk management system is to guarantee that accounts are prepared correctly and reliably and to ensure that consolidated and single-entity financial statements comply with the applicable regulations.

The following structures and processes have been implemented in the Group:

The Corporate Board of Management bears overall responsibility for the internal control and risk management system with regard to the Group's financial reporting process. All levels of the Group are integrated through a strictly defined management and reporting organization.

Uniform recognition and measurement based on the regulations applicable for the Voith GmbH & Co. KGaA consolidated financial statements is ensured by Group accounting guidelines. Amended accounting rules are constantly adapted and communicated by Voith GmbH & Co. KGaA. The quality of the guidelines is ensured by an ongoing exchange between the departments responsible.

Accounting is organized on a decentralized basis but is monitored and coordinated centrally. Accounting entries are recorded in the separate financial statements of the subsidiaries of Voith GmbH & Co. KGaA. Risk control matrices have been developed at corporate headquarters for those line items that, from a Group perspective, are significant and exposed to an elevated risk of misstatement. These matrices must be applied by the subsidiaries when preparing their end-of-year financial reporting. They present the significant accounting-related risks for the specified line items of the financial reporting and contain corresponding instructions on controlling activities, responsibilities and documentation duties. Among other elements, the controlling activities comprise analytical procedures as well as the practice of having significant and complex business transactions processed and controlled by different people. Complex accounting issues (e.g. financial instruments) are referred to corporate departments or external experts (e.g. relating to pensions). The activities and controls for these issues are also considered in the risk control matrices.

The consolidated financial statements are prepared by adding information to the single-entity financial statements of the subsidiaries to create standardized reporting packages which are included in the consolidation system. Once the data has been fed into the consolidation system, it is subject to an automated plausibility check. If this returns an error message, this is immediately corrected by the individuals in charge of the subsidiaries concerned. The subsidiaries are supported by contact persons at headquarters for all accounting-related issues. After the data is finally approved, the respective management, or in isolated cases the representatives they appoint, issues a letter of representation confirming the completeness and accuracy of the reporting package in accordance with the relevant requirements and that the internal controls have been conducted and documented.

Group-wide reconciliation of balances takes place worldwide via an intranet-based platform. The various deadlines for the different parts of the reporting package are stipulated in the consolidation system and centrally monitored in the course of the preparation process. Almost all consolidation activities are undertaken centrally at Voith GmbH & Co. KGaA. The entire consolidation process is supported by both systems-based and manual controls.

The proper functioning of the controls defined in the accounting-related internal control system is evaluated on a regular basis. If any weaknesses are identified, the system is adjusted accordingly by central accounting.

The quality of financial reporting is also ensured by reconciling planning calculations with the external reporting at all levels of the Company. System access controls based on authorization concepts as well as programmed plausibility checks in those IT systems used for the financial reporting ensure that processes are complete and accurate.

The internal audit department performs regular reviews of the proper functioning, correctness, reliability and efficiency of all internal control and risk management systems in the Voith Group independently of the individual processes. Suitable measures are promptly taken to remedy any gaps or weaknesses that may be identified.

Compliance with individual rules of the accounting-related internal control system is tested by the external auditors on a sample basis in the course of their audit of the consolidated and separate financial statements. Any deficiencies or flaws that appear are recorded in a management letter along with suggested improvements.

III.3. Risks

In the sections that follow, we describe risks that could have a substantially negative effect on our net assets, financial position and earnings position and lead to failure to meet forecasts or targets. The order of the risks within the six risk categories presented below reflects how we currently estimate the importance of these risks for the Voith Group. Unless stated otherwise, the following risks relate to all Group Divisions.

III.3.1. Risks to the Group

External risks

Our economic environment is determined by global demand for capital goods. This demand is in turn influenced by the global macroeconomic environment. If economic development were to fall perceptibly short of expectations, it is highly probable that this would have negative effects on Voith's business position, net assets, financial position and earnings position.

We based our planning for the 2021/22 fiscal year on the assumption that the global economy will continue to recover and grow in 2022 at a somewhat slower rate than in 2021. This expectation is fraught with considerable uncertainties, however. Uncertainty is generally detrimental to the investment climate. One material risk for the macroeconomic environment and Voith's earnings position stems from the further course of the Covid-19 pandemic: it might be prolonged and aggravated by sluggish progress with vaccination around the world and the emergence of new, more dangerous virus variants. New rounds of lockdowns, port closures and similar measures aimed at containing the pandemic might compromise supply chains and trade flows more severely than currently assumed. This could lead to production delays and project postponements at Voith. Limited access to construction sites on account of lockdowns and strict travel restrictions would additionally lead to a situation where commissioning and maintenance work cannot be performed as planned as the relevant staff cannot enter the construction site.

Even if the pandemic were to be brought under control relatively quickly, the disruptions to the supply chains will be felt for a longer period of time. As a further risk to the macroeconomic development as well as for Voith's earnings position, this involves restrictions in the availability of materials and further rises in the prices of raw and other materials as well as transport costs.

Another risk to global economic development stems from the inflationary tendencies triggered by numerous imbalances between supply and demand: if the acceleration in the inflation rate proves to be not only temporary, contrary to current assumptions, this would, in all probability, lead to a more restrictive monetary policy that, in turn, could slow the speed of the upswing.

Alongside the uncertainties associated with the Covid-19 pandemic, there are a series of further risks that could have an additional negative impact on the global economy should they eventuate. For example, the ongoing trade dispute between the USA and China constitutes an additional risk to demand and investment for the entire global economy. As these two largest of the world's economies are responsible for a great share of the forecast global economic growth, unfavorable developments in China or the

USA, even if they are caused by internal problems, would have an especially negative impact on the global economy. Further potential triggers for global economic growth below expectations relate to an overheating of the financial markets and political instabilities. For example, further escalation of the conflicts in the Near and Middle East, especially in Iran, would likewise have negative consequences for global development.

Various market risks could have a negative impact on Voith's earnings position should they eventuate.

Due to structural change in some of the market segments served by the Group Divisions Paper and Turbo, the first signs of a decline in demand for individual industrial applications over the medium term can be seen. This relates, for instance, to the area of fossil-fuel power stations, underground mining and the segment of graphic paper machines. The base of these products installed in the market contracting permanently will reduce the potential for our service business. If this change takes place more rapidly than assumed in our planning, it would become more difficult to achieve our targets.

The power generation market is currently characterized worldwide by uncertainties regarding energy policy, to which the Group Division Turbo and, even more so, the Group Division Hydro, will have to adjust. Hydropower is currently only benefiting to a limited extent from the trend towards renewable energies because solar and wind power are highly subsidized in Europe, which reduces incentives to invest in hydropower.

Global paper production failing to recover further, as anticipated by market analysts, would adversely affect not only demand for paper machines but also sales of consumables. A negative impact may arise in particular from a sustained macroeconomic crisis or also barriers to international trade in the wake of which fewer goods are packaged. In the event of a decline in unit sales, the already existing competitive and price pressure might intensify further, which would have a negative impact on the earnings position of the Group Division Paper.

In South America, specifically Brazil, and Africa we generally identify great potential for hydropower. However, project awarding is currently hampered on both continents. Ongoing political and macroeconomic difficulties are the primary reason. The further rise in the burden on public finances caused by the Covid-19 pandemic in the emerging markets is having an additional negative effect on the approval and implementation of major infrastructure projects. Alongside this, uncertainties in financing might lead to projects by private operators being postponed. Should the two markets see even worse developments than assumed in our planning and come to a complete standstill, this would have a negative impact on the earnings position of our Group Division Hydro.

The commercial vehicle market reacts extremely sensitively to economic developments such as the unprecedented collapse in 2020. Should the recovery in the commercial vehicle market last longer than currently expected, this would also have a direct impact on truck production and therefore on Voith Turbo's business.

If the technological shift from internal combustion engines to electric or hybrid motors were to take place more rapidly than assumed in our planning, this would negatively impact the earnings position of the Group Division Turbo.

It is conceivable that the ongoing geopolitical tensions might lead to new trade embargoes or a potential exacerbation of sanctions already in place. Depending on the extent and the severity of the sanctions, this would at the very least put limits on our doing business in the countries affected, if not prevent it entirely.

Management risks

Voith has set itself the aim of being a trailblazer for an industry in the post-carbon age and will increasingly make investments over the next few years in the key competencies for the megatrends of decarbonization and digitalization, both organically and through acquisitions. This not only comprises the transformation of Voith into a climate-neutral business but, in particular, support for our customers with digital solutions and sustainable technologies in their own transformation. As is always the case with such major transformation processes, there is the general risk of the strategic changes not being implemented within the planned time period or not leading to the desired outcome. We are aware of this risk as well as of the associated opportunities. The alignment of the Voith Group to industrial sustainability and the ongoing strategic and technological development of the Voith range of products enjoy the utmost attention from the Corporate Board of Management, which is reflected among other things in the “Innovation & Technology” portfolio newly created in the reporting year.

Liquidity and financial risks

Voith’s diversified financing structure is designed to safeguard long-term stability. By virtue of the ability to access borrowed capital from unused lines of credit, Voith is currently not exposed to any concrete liquidity risks and has sufficient liquidity reserves at its disposal to be able to meet all payment obligations at all times. In the light of the imponderables regarding the further course of the Covid-19 pandemic, Voith had increased its confirmed credit lines in the previous year, thus ensuring that it would have sufficient liquidity. These increased facilities remain available.

As a company with global operations, Voith remains exposed to the risk of fluctuating exchange rates, which could have a negative impact on the business position, net assets, financial position and earnings position. To contain risks arising from cash flows in different currencies (mainly the US dollar but also currencies such as the Chinese renminbi (yuan), Brazilian real or Indian rupee), there are consistent currency management procedures in place throughout the Group. All Group companies are required to hedge foreign currency items when these occur. Revaluation of the euro against various other currencies could have negative effects on sales and net result due to currency translation of the financial statements prepared in foreign currency. This could further have an impact on our competitive position as competitors could benefit from cost advantages in weaker currencies. Moreover, interest rate risks are hedged using suitable instruments in order to maintain interest and financing security in the long term.

To hedge existing transactions such as future cash flows in different currencies or floating-rate financing, Voith uses a variety of derivative financial instruments, in particular forward exchange contracts to manage currency risks and interest rate swaps to manage interest rate risks. The instruments used and the hedging strategies are formally designated and documented at the inception of the hedge in line with the Company’s risk management objective. The risks are constantly monitored and, if necessary, the hedging instruments are adjusted.

To guard against political and economic risks associated with goods and services provided by the Group Divisions, the Group buys commensurate insurance from government export credit insurance agencies, from the private-sector insurance market and from banks. The Group also maintains adequate cash reserves to cover all other operating risks.

Counterparty risks with financial partners are monitored constantly. For more information, please refer to the notes to the consolidated financial statements. The related reporting as well as reporting on financial instruments (Sec. 315 (2) No. 1 German Commercial Code (HGB)) is provided there in the section “Other notes”.

Adequate provisions have been recognized and contingent liabilities have been disclosed in the notes to cover the potential financial burden of tax risks. Neither Voith GmbH & Co. KGaA nor any of its Group companies are involved in any current or foreseeable taxation proceedings that could have a material effect on their economic situation.

There are no indications of particular liquidity or financial risks.

Infrastructure risks

In the area of infrastructure risks, Voith primarily identifies IT risks, human resources risks, compliance risks and environmental protection risks, against which the Company takes specific countermeasures. The introduction of a Group-wide ERP system is a complex, multiyear project that involves risk during the implementation phase. Over and above this, there are currently no indications of particular risks relating to the Group’s infrastructure.

Our successful business activities are underpinned by state-of-the-art and secure information technology. For this reason, we have our own central IT function within the Group that safeguards reliable information processing on an ongoing basis. The IT specialists in this function manage the entire IT infrastructure for the Group and the specific application systems used by each Group Division. We employ a hybrid IT infrastructure: one part of our systems, applications and data is hosted in in-house computer centers, another part is kept in a cloud.

Our information security management is based on the international standard ISO/IEC 27001, and thus meets the most stringent standards. Our central computer center operations in Heidenheim are certified under this standard; this standard applies to all computer centers on an internal basis on which a Group directive also builds. Our primary objective regarding the management of IT risks is to ensure the availability of our IT infrastructure and IT applications used. Outages of basic systems owing to technical faults, attacks or force majeure would result in business processes being massively disrupted or coming to a complete standstill. In order to prevent such business interruptions, we have built redundancy capacity into the core systems of our IT landscape at two computer centers. At the application level, we address not only the risk of outages but also the risk of defective software and the risk of attacks by third parties, such as ones involving ransomware. Applications are consistently implemented with the “security by design” and “privacy by design” approach, which means that security and data protection requirements are already taken into consideration at the development phase in order to prevent later security vulnerabilities and data protection issues. In addition, there are dedicated vulnerability tests and simulated hacks.

In order to maintain the confidentiality of our data, these must be categorized by each and every employee according to the confidentiality levels predefined in a Group directive. Depending on the respective level of confidentiality, we have auxiliary IT tools such as encryption technology, which we use to securely store and transfer data. This also ensures that our intellectual property is protected to the fullest extent possible. In addition to these technical measures, we train and inform our employees about how to securely handle confidential data by means of e-learning programs and awareness campaigns.

Information on our Covid-19 crisis management has been put together in section I.7. of this management report.

The measures necessary to contain the Covid-19 pandemic have been placing increased demands on our information technology since the 2020/21 fiscal year. As early as mid-March 2020, we succeeded in aligning the global IT infrastructure to a large share of mobile working. A fast, stable IT infrastructure in addition to data and system security safeguard ongoing business operations and unhindered communications even in times of limited personal contacts.

One of the central challenges for Voith is the ability to recruit a sufficient number of qualified employees and retain them within the Company. If we were unable to cover our qualitative and quantitative personnel needs over a longer period of time, this would call into question our ability to reach our corporate targets. We compete with other international players and act with foresight in order to ensure we have a sufficient number of qualified staff. Competitive compensation schemes, a family-friendly HR policy and flexible working models along with international career development prospects enable us to offer an attractive work environment. Through a wide range of training and development programs as well as a culture of lifelong learning, we encourage the people employed at Voith to continually improve their qualifications to meet the demands of a constantly changing working world. Our employer branding concept introduced in the reporting year communicates our employer values and the competencies central to our corporate culture and references the global megatrends that Voith addresses with its products.

Further information can be found in section I.6. **Employees**.

Further information on compliance management in the Voith Group can be found in the Voith Sustainability Report. The current version is available on the Internet at **http://voith.com/corp-en/about-us/sustainability.html**.

At Voith, we base all our actions on trust and integrity. We require each and every employee to comply with the applicable laws and our own internal guidelines (compliance). This applies to all levels of hierarchy throughout the Group. Voith's Code of Conduct contains rules that govern conduct towards third parties such as business partners, competitors, political parties and authorities as well as between employees within the Company. Non-compliant behavior, or even illegal acts committed by employees, can be damaging to our reputation and can lead to sanctions, penalties and ultimately to a fall in earnings. For this reason, we place great value on a well-functioning compliance management. Compliance with these principles is monitored by the Group's Compliance Committee, whose chair reports directly to the President and CEO, and by the compliance officers in the Group Divisions and in each Group company. Each employee is required to report any infringement of the Voith Code of Conduct. Our whistleblower system is also accessible to people outside the Company. In addition, we perform random internal compliance reviews in areas where potential corruption risks have been identified within the scope of the risk management process. Infringements are consistently met with sanctions. Within the scope of an audit being performed by an international organization with the ongoing active support of the Company, the Company identified indirect compensation payments to a representative of one of its subsidiaries made by that subsidiary without the approvals necessary according to the regulations in place throughout the Group. The contract with the representative was terminated immediately, the necessary personnel-related measures were taken. Subject to the final assessment that is still outstanding, the two subsidiaries covered by the audit are alleged to have additionally infringed certain fair competition rules in the bidding and award process relating to two projects.

The business activities of an industrial company generally give rise to risks for people and the environment. Such risks eventuating could also result in damages being filed and a loss of reputation. Industrial safety as well as compliance with environmental legislation and corporate policies is a top priority for us. All production processes are subject to the Group directives on health, safety and environmental protection and on quality and risk management. Integrated management systems monitor compliance with these directives and ensure that both production and products consistently meet the same high quality and environmental standards. Environmental risks can thus be identified at an early stage and appropriate countermeasures initiated. Insurance policies have been taken out or adequate provisions have been recognized for any residual risks. In this respect, we consider environmental and health risks arising from Voith's business activities to be well under control with regard to probability of occurrence and amount of potential damage in particular.

III.3.2. Risks to performance

Contractual risks

Long-term contracts, especially for major projects, form a key component of our plant engineering business at the Group Divisions Hydro and Paper. Such contracts are associated with a host of significant risks and we attach great importance to managing them. These firstly include contractual penalties and claims for damages through to withholding of payments and contract terminations arising from unexpected technical problems or unforeseeable developments at the project locations or failure to meet specified deadlines. Secondly, cost overruns or reduction of productivity within the scope of fixed price contracts may lead to a fall in earnings margins. Project management and controlling, as it has been implemented, continuously reviews whether the projects are indeed performing in line with the plans. Any deviations are addressed at an early stage and any risk allowances necessary are recognized. Liability and property insurance in line with standard industry practice is taken out to cover potential losses and/or liability risks. Appropriate provisions are recognized for special risks arising from existing contracts if these risks can be reliably quantified.

Technical risks

Technical risks relate to innovation-related risks and procurement risks.

Innovation-related risks are a key risk area for a technology group like Voith. The future profitability of the Company hinges on its ability to develop marketable products and services and to use state-of-the-art production technologies and service processes. Our earnings position could be negatively impacted by investments in technology that do not work out as planned or fail to find the level of market acceptance expected or that are overtaken by new disruptive technologies. Voith invests large sums of money to

Information on our innovation strategy can be found in section I.4. **Research and development**.

further improve and refine existing technologies, and to research and develop new products, systems and services. The strengthening of our market orientation and our innovative drive is a declared objective in the advancement of our corporate culture. Our aim is to identify disruptive technologies at an early stage, get involved in them from the very beginning and take an active role in shaping the future of our markets.

Collaboration with suppliers in the global procurement markets involves risks with regard to potential supply disruptions, unforeseen cost increases and non-compliance with environmental and social standards. To secure our supplies, we have embedded effective measures in the relevant purchasing processes – supplier selection, order processing and delivery date tracking. In addition, we have a multiple source policy in place in order to circumvent the risks of supply outages and supplier insolvency at a global level. Once again in the 2020/21 fiscal year, we additionally used master agreements and long-term price agreements in contracts with significant procurement volumes to prevent any unplanned cost increases. We have integrated compliance with current national environmental and social standards in our General Terms and Conditions of Purchase. Current challenges in the reporting year arose from supply bottlenecks and rising costs for raw materials and components in the wake of the economic upswing following the recession and interruption-prone supply chains as well as rising logistics costs as a consequence of the pandemic. We countered these developments with further diversification and localization of the supply chains and intensified risk management and date-tracking with regard to our suppliers. We, therefore, consider ourselves to be in a good starting position to identify any further possible disruptions in the supply chains at an early stage and counter them with flexible alternative solutions.

As part of our regular internal reporting on performance risks, we monitor the theoretical maximum risks associated with specific risk positions as well as the risks deemed to be realistic after careful assessment. Maximum risks are considered in the light of whether they constitute risks jeopardizing the Group's ability to continue as a going concern. There were no risks to the Group's ability to continue as a going concern at the reporting date. The risks which may be realistically expected are considered for profit planning purposes and in order to assess the need to recognize provisions in the balance sheet. As at the reporting date, provisions and allowances totaling €323 million (previous year: €240 million) were recognized in the balance sheet for significant performance risks (maximum risk: €452 million; previous year: €392 million).

III.3.3. Overall risk

To the best of our knowledge, there are no risks which, either individually or collectively, could jeopardize the ability of the Voith Group to continue as a going concern. Of all the risks facing the Voith Group, external risks could have the strongest negative impact on business development. Compared with the previous year that was strongly marked by the Covid-19 pandemic, the risk situation has improved again. We are convinced that, in light of our strong diversification, the established market position in all three Group Divisions, our financial strength, and the instruments used to control risks, our Group is able to bear the risks associated with our business activities.

III.4. Opportunities

In the following, we describe significant opportunities that could have a positive impact on our business position, net assets, financial position and earnings position, and lead to forecasts or targets been exceeded. The order of the opportunities presented below reflects how we currently estimate the importance of these opportunities for the Voith Group. Unless stated otherwise, the following opportunities relate to all the Group Divisions.

Growing our service business

We are generally working towards expanding the service business and increasing its share of sales. In the light of the Covid-19 crisis, investment in new equipment and machines was postponed in several industries. With respect to the extended service life of existing equipment, customers are increasingly tending to make more intensive use of our range of services, such as maintenance, performance-enhancing components and spare parts. This offers opportunities in all Group Divisions for our service activities, which might grow more strongly than currently anticipated.

Expansion of our portfolio with product innovations

We are constantly working on developing new technologies, products and solutions as well as improving existing ones. We again launched numerous new products in the market for all Group Divisions in the reporting year. In the best-case scenario, this will not only allow us to secure our market position but also to generate sales and to win market shares that have not yet been integrated in our business plan, especially if innovations are recognized as value adding by our customers much faster than currently assumed. We see opportunities particularly in sustainable products aimed at climate neutrality and resource efficiency, such as electrical drives and with new digital solutions in the area of the Industrial Internet of Things. The Covid-19 pandemic further accelerated the digitalization of many industries. This also relates, for instance, to the paper industry and offers growth potential for Voith.

Opportunities associated with the global economy

If the economic environment in important sales regions proves to be better over the short to medium term than currently assumed, it is likely to have a positive impact on Voith's business position, net assets, financial position and earnings position. The speed of the expected economic recovery depends to a great extent on the further course of the Covid-19 pandemic. The decisive factor will continue to be how quickly the diverse market imbalances and turbulence and the interruptions to the supply chains triggered by the pandemic are remedied. China, Brazil and Africa, for example, present upside potential: China is experiencing dynamic growth and has already passed the pre-crisis level of gross domestic product; in addition, this country may also be able to benefit from a long-term solution to the trade conflict with the USA. All eyes are also on Brazil, where an appreciably lower growth rate than the global average and only very hesitant awarding of infrastructure projects are expected on account of the continuing political crisis among other factors. For Africa, the outlook is currently rather modest not least on account of the low vaccination coverage. The growth prospects for the continent would improve from more robust access to Covid-19 vaccines. Economic developments which exceed current expectations would benefit all Group Divisions, albeit with different degrees of delay, and in all cases from the second half of the 2021/22 fiscal year at the earliest.

Growth through acquisitions

Alongside organic growth, we also strive for growth through business acquisitions and equity investments. Potential acquisition targets are profitable businesses with viable technology and above-average potential for growth, that complement our business in the existing markets or expand it with new activities. We use structured M&A processes to continually screen potential target companies for their suitability. Even in the short term, acquisitions offer opportunities for additional earnings not provided for in the business plan; in the mid-term they can help improve our position in existing markets or tap promising new industries for Voith. In addition, acquisitions may offer potential synergies.

New sales markets for existing products and services

As well as expanding our portfolio of offerings, we also evaluate market opportunities for our existing products and services in all of our Group Divisions in those regions where they have been underrepresented to date or have no presence at all. Africa, for instance, offers great potential, especially for the Group Divisions Hydro and Turbo. However, as the continent is struggling severely with the consequences of the Covid-19 pandemic and the markets there are proving to be generally volatile and difficult to predict, we have made conservative assumptions in this respect for our business planning. We also seek to transfer our already successful products to new fields of application or sales areas. Another approach that offers new growth opportunities especially for the Group Division Turbo consists of more intense marketing of complete systems. This means that various components, some of which can also be purchased from subcontractors, are combined in one system with an optimized setup. The resulting additional sales potential has not yet been integrated in our business plan.

Increasing investments in the oil & gas market due to a sustained higher oil price

Our planning for the 2021/22 fiscal year currently assumes that there will be a slightly rising but still low level of investment in the oil & gas market. Should the oil price see a further and permanent rise from the current level of under 80 US dollars per barrel of Brent, oil companies could increase their investments and expenditure on service activities more strongly than expected. This would improve Group Division Turbo’s order situation.

Expectations on volume awarded in the hydropower market exceeded

On account of the scale of many hydropower projects the annual volume awarded on the market is exposed to volatile fluctuations. In the event that some of the major projects currently on hold are awarded in the 2021/22 fiscal year, this would lead to an unexpected upward spike and improve the Group Division Hydro’s order situation. In this context, a positive impulse might come from as yet unannounced government economic stimulus programs aimed at overcoming the consequences of the Covid-19 crisis that foster infrastructure projects in the field of hydropower.

IV. Forecast report

IV.1. Business environment

Still no sweeping recovery

At the beginning of the 2021/22 fiscal year, the global economy remains on a recovery trajectory. There are, however, great differences between countries in terms of speed and extent of the expected recovery that primarily arise from the very unequal distribution of access to vaccines. Over and above this, those countries in which government economic stimulus programs were available were in a better position in comparison to highly indebted countries that do not have any scope for such programs and can, at best, hope for spillover effects. The diverse disruptions triggered by the pandemic, especially the interruptions to the supply chains and shortages of raw materials, intermediate products and components, will have a significant impact on the forecast period again.

In its latest release from October 2021, the IMF forecasts global economic growth of 5.9% in 2021 and growth rates of 4.9% and 3.6% for 2022 and 2023, respectively. The IMF's current forecasts involve great uncertainty that might cause a deviation upwards or downwards from the forecast development. According to the IMF's own statements, the balance of risks is tilted to the downside. The uncertainty factors primarily relate to the evolution of the pandemic that is influenced by global vaccination progress, among other aspects, and potential measures aimed at containing the pandemic and their impact on trade flows, supply chains and markets. Continuing inflationary trends constitute a further material risk. These could lead to a tightening of monetary and fiscal policy to combat inflation and, in a worst case scenario, cause stagflation.

The material risks to global economic development can be found in section III.3. **Risks**.

An overview of the growth rates expected by the IMF in 2022 and 2023 for regions and countries most important to Voith is presented below:

Economic growth
Real change in GDP[1] on the previous year

World output	2022	4.9%
	2023	**3.6%**
Advanced economies	2022	4.5%
	2023	**2.2%**
USA	2022	5.2%
	2023	**2.2%**
Euro area[2]	2022	4.3%
	2023	**2.0%**
Germany	2022	4.6%
	2023	**1.6%**
Emerging market and developing economies	2022	5.1%
	2023	**4.6%**
China	2022	5.6%
	2023	**5.3%**
ASEAN-5	2022	5.8%
	2023	**6.0%**
India	2022	8.5%
	2023	**6.6%**
Brazil	2022	1.5%
	2023	**2.0%**

Source: International Monetary Fund (IMF); World Economic Outlook, October 2021.
[1] Forecasts.
[2] Including Germany.

Germany, just like the euro area as a whole, and the USA are benefiting from extensive economic stimulus programs and good supplies of vaccine. China as an exporting country is profiting from the general global upswing in addition to the availability of vaccine. An even higher percentage growth rate is assumed for India, which is, however vulnerable to pandemic-related setbacks in the light of the country's weak health system. In Brazil, the recovery will probably be significantly slower than in other economies. Even before the pandemic, the country was in an economic and political crisis. In addition, the Brazilian central bank reacted to the high rate of inflation with appreciable interest rate hikes. Growth rates below the global average are also expected for Russia and other Eastern European countries as well as many countries in Africa.

Even if all regions are expected to enjoy an upswing in the 2021/22 fiscal year, this will not yet lead to a sweeping recovery. In the IMF's assessment, the global economy will not return to the forecast pre-pandemic growth trends before 2025. Besides, most advanced economies are expected to recover more quickly than the emerging markets thanks to widespread vaccination programs and fiscal policy support.

Divergent developments in the Voith markets

The investment climate may well continue to improve in line with the global economy. The five Voith markets are on a general recovery trajectory. Nevertheless, there may well be less investment on some of the markets served by Voith than in the reporting year that was characterized by catch-up investment.

The medium- to long-term growth trajectory of the energy market is characterized by rising needs worldwide, which necessitate increasing investments in the creation of additional power generation capacities. At the same time, the transformation of the energy sector towards low-emission energies such as hydropower is being driven forward. As part of the great expansion of wind and solar energy, the demand for pumped storage power plants for safeguarding grid stability and supply reliability is also growing. Over the short term, the volume of contracts awarded in the hydropower market may be exposed to volatile fluctuations from year to year that are difficult to predict. In the conventional sector, a stable development is expected for nuclear power generation and gas, whereas coal-fired power plants will increasingly recede into the background.

The oil & gas industry remains under pressure even if prices have recovered: excess capacities in the OPEC+ countries and worldwide efforts to reduce the use of fossil energies with a view to limiting carbon emissions are dampening the investment climate in the industry. We based our business plan on the assumption that investment in those segments of the oil & gas market relevant for us will increase slightly in the 2021/22 fiscal year but remain under the pre-crisis level.

For the paper market, we expect a perceptible decline in investments in new lines and major rebuilds in the 2021/22 fiscal year following the reporting year that saw very strong investment. After the strong increase in capacities in the reporting year, excess capacities are to be expected especially in the board and packaging paper segment. Even if paper production continues to rise, demand for consumables will very probably remain roughly constant – in comparison with the very good reporting year. In our estimation, demand for services will continue to recover as long as it is possible to relax the measures aimed at containing the pandemic.

With regard to the raw materials market, we assume that prices and demand will calm down again somewhat but will remain at a good level. In this light, investment activity in the mining industry is expected to remain high. In our assessment, the focal point of this investment will be on new technologies for boosting the efficiency of production.

The picture for the transport & automotive market is varied. In the commercial vehicle segment, both the truck market and the bus market are expected to hover below the pre-crisis level in the 2021/22 fiscal year. In this context, the production of medium-size and heavy trucks is projected to fall in 2022 after the surprisingly positive development in 2021 due to an appreciable decline in the large Chinese market. In contrast, analysts forecast growth at a low level for the bus market over 2022. The global market for rail vehicles, in contrast, should continue to grow over the coming years with competition remaining intense. In this respect, rail is benefiting from the global climate protection efforts and the trend towards urbanization. Our outlook for the marine segment remains subdued: the maritime energy transition offers growth potential thanks to partial government subsidization, which will lead to the modernization of fleets and new build programs. The transport & automotive market will be increasingly characterized by the trend towards e-mobility as well as automation and digitalization.

IV.2. Future development of the Voith Group

Increase in profitability

Over the last two years, which were marked by the Covid-19 pandemic and its macroeconomic consequences, Voith has demonstrated the resilience of its business model and its organization; we have so far come through the crisis in better shape than was to be expected at the outbreak of the pandemic. Even during the crisis, we invested in the ongoing strategic, technological and organizational development of our company, thus laying an important foundation for the positive development of our business over the long term.

Leveraging our core business will remain a keystone of our strategy over the coming years. In doing so, we are placing a focus on the high-margin service and spare parts market and on sustainable and digital solutions. Moreover, we intend to continue investing in tapping into forward-looking new business segments that promote climate neutrality such as electrical drive systems, hydrogen technology, energy storage and cargo rail. Our strategy involves a great deal of commitment to research and development, as well as targeted business acquisitions.

In the light of a progressing but not yet sweeping recovery of the economic environment, we anticipate slight sales growth for the 2021/22 fiscal year. Over and above this, we intend to improve our profitability appreciably. Efficiency gains from optimizing our internal structures and processes will make a contribution in this regard.

Our Group forecasts for the four key financial performance indicators in the 2021/22 fiscal year are as follows:

Voith Group	2020/21 in € millions	2021/22 Forecast
Orders received	5,016	Perceptible decline
Sales	4,260	Slight increase
EBIT	165	Appreciable increase
ROCE	8.8%	Appreciable increase

We assume that orders received by the Voith Group will remain high in the 2021/22 fiscal year but will perceptibly lag behind the high level seen in the reporting year. Our forecast is based on the assumption that the paper market will normalize following extraordinarily strong investment activity in the reporting year, and that the Group Divisions Hydro and Turbo will continue to be confronted by a challenging market environment. On account of the long project times in the large-scale plant business, the high level of orders received in the 2020/21 fiscal year will be gradually reflected in rising sales over the coming years. In the 2021/22 fiscal year, we are reckoning with only a slight increase in sales because the low level of orders received in the crisis year 2019/20 will continue to be felt in this area. Furthermore, the pandemic-related impediments to operations and the disruptions to the upstream supply chains are likely to overshadow at least part of the 2021/22 fiscal year. We expect growth stimulus to come from the service business. With regard to our profitability, we intend to achieve a clear improvement. Over the last two fiscal years, we have worked intensely on optimizing our structures and processes. The efficiency gains brought about by this are now becoming increasingly apparent. According to our planning, EBIT will rise appreciably in the 2021/22 fiscal year. All three Group Divisions are expected to contribute to this improvement in earnings with rising EBIT. Our earnings forecast involves a certain degree of uncertainty as it is currently difficult to foresee to what extent it is possible to compensate for the significant rises in materials prices. In line with the development of the operating result, our planning also sees ROCE improving.

All forecasts are stated before taking account of currency effects and the effect of any future M&A activities.

Our forecasts for the Group Division Hydro are as follows:

Group Division Hydro	**2020/21** in € millions	**2021/22** Forecast
Orders received	1,146	Slight decline
Sales	945	Slight increase
EBIT	8	Significant increase
ROCE	5.0%	Significant increase

The Group Division Hydro will in all probability be confronted with a challenging market environment in the 2021/22 fiscal year, too, in which the aftermath of the Covid-19 pandemic can still be felt. We expect the volume of contracts awarded worldwide in the hydropower market overall will be perceptibly up on the level of the reporting year with regional differences in this development. A large portion of this volume of contracts awarded is expected to come from pumped storage projects in China that are, however, primarily awarded to local competitors on account of relevant regulations by the Chinese government. We have identified potential most of all in modernization projects and in the service business. For our Group Division Hydro, we anticipate that orders received will contract slightly on the good level seen in the reporting year. The recent increase in the level of orders received will be reflected only gradually in sales growth on account of the long project times customary in the hydropower area. For the 2021/22 fiscal year, we anticipate a slight increase in sales. EBIT that hovered at a low level in the reporting year will, according to our planning, increase at a faster rate than sales. ROCE is benefiting from the rise in earnings and a reduction in the capital employed. Our sales and earnings planning is based on the assumption that at a global level, there will be no wave of Covid-19 infection in the 2021/22 fiscal year, but that there will only be short-lived, local infection hot spots, meaning that construction site activities can be performed without major delays or efficiency losses.

For the Group Division Paper we forecast the following developments:

Group Division Paper	2020/21 in € millions	2021/22 Forecast
Orders received	2,276	Perceptible decline
Sales	1,776	Perceptible increase
EBIT	114	Perceptible increase
ROCE	18.2%	Perceptible increase

After the exceptionally large investments made by paper manufacturers in new lines and rebuilds in the reporting year, especially for the production of board and packaging paper, we expect the paper machine market to normalize in the 2021/22 fiscal year. As paper production is likely to continue increasing, we see stable to slightly rising demand for consumables and services. The Group Division Paper's orders received will therefore in all probably be below the very high figure seen in the reporting year, but will nevertheless remain at a high level in a multiyear comparison. The recent sharp increase in orders on hand should ensure perceptible growth in sales in the 2021/22 fiscal year. On the basis of the higher sales volume, we are also expecting a perceptible increase in EBIT, a performance indicator that was already standing at a satisfactory level in the reporting year. In line with this development, ROCE is expected to undergo a perceptible improvement.

Our forecasts for the Group Division Turbo are as follows:

Group Division Turbo	2020/21 in € millions	2021/22 Forecast
Orders received	1,512	Slight increase
Sales	1,457	Stable development
EBIT	41	Appreciable increase
ROCE	4.9%	Appreciable increase

We assume that the markets relevant for the Group Division Turbo will stabilize again in the 2021/22 fiscal year. In light of this, we forecast a slight increase in orders received. Both divisions will probably contribute to the planned growth in orders received. We expect growth stimulus to come from the service business in particular. Our business might, however, continue to be impeded by raw materials shortages and disruptions to the supply chain. Consequently, we anticipate a stable sales development. The finalisation of the restructuring projects will be reflected positively on the earnings side: our business planning assumes that EBIT and ROCE will increase appreciably in the 2021/22 fiscal year.

Forecasts are always subject to considerable uncertainty. Our forecasting accuracy is currently impaired by a certain degree of uncertainty regarding the further evolution of the pandemic. Concerning the opportunities and risks already known for the forecast development of business operations, we refer to section III. Risks and opportunities of this management report.

We see ourselves equipped in the best possible way for coming challenges. Thanks to its broad sectoral and geographical positioning, the established market position in all three Group Divisions as well as a sound balance sheet, Voith is extremely resilient. Voith has a product portfolio that is fit for the future, an efficient organization and an outstanding, dedicated workforce. Our company is in a good strategic position, and the reliable long-term access to capital provides us with the necessary entrepreneurial scope needed to make important investments for the future and to implement the decisions we deem suitable to enable us to continue along our path of sustainable profitable growth.

Heidenheim an der Brenz, November 29, 2021

The Board of Management of Voith Management GmbH

Dr. Toralf Haag
Egon Krätschmer
Dr. Stefan Kampmann
Andreas Endters
Uwe Wehnhardt
Cornelius Weitzmann

Consolidated Financial Statements

Page

Consolidated statement of income

for the period from October 1, 2020 to September 30, 2021

in € thousands	Note	2020/21	2019/20
Sales	(1)	4,260,350	4,173,101
Changes in inventories and other own work capitalized	(2)	79,516	16,107
Total output		**4,339,866**	**4,189,208**
Other operating income	(3)	342,839	377,528
Cost of materials	(4)	-1,977,789	-1,827,750
Personnel expenses	(5)	-1,516,003	-1,501,461
Depreciation and amortization		-169,863	-167,886
Other operating expenses	(6)	-929,887	-1,008,093
Operational result		**89,163**	**61,546**
Share of profit/loss from companies accounted for using the equity method		-6,470	-7,799
Interest income		9,675	28,460
Interest expenses		-31,331	-28,138
Other financial result	(7)	19,057	19,100
Result before taxes from continuing operations		**80,094**	**73,169**
Income taxes	(8)	-73,577	-60,262
Net result from continuing operations		**6,517**	**12,907**
Net result from discontinued operations		**-5,230**	**-6,563**
Net result		**1,287**	**6,344**
· Net result attributable to shareholders of the parent company		-9,059	-3,157
· Net result attributable to holders of non-controlling interests		10,346	9,501

Consolidated statement of comprehensive income

for the period from October 1, 2020 to September 30, 2021

in € thousands	2020/21	2019/20
Net result	**1,287**	**6,344**
Components of other comprehensive income that will not be recycled through profit or loss in later accounting periods:		
Remeasurement of defined benefit plans	25,068	21,082
Taxes on components of other comprehensive income that will not be recycled through profit or loss in later accounting periods	-111,891	-6,152
Components of other comprehensive income that will be recycled through profit or loss in later accounting periods:		
Gains/losses on financial assets and marketable securities	423	-4,614
Gains/losses on cash flow hedges	-570	888
Gains/losses on currency translation	39,503	-82,344
Gains/losses on net investment in foreign operations	4,828	-35,908
Taxes on components of other comprehensive income that will be recycled through profit or loss in later accounting periods	-453	4,724
Other comprehensive income	**-43,092**	**-102,324**
Total comprehensive income	**-41,805**	**-95,980**
· Total comprehensive income attributable to shareholders of the parent company	-52,677	-103,386
· Total comprehensive income attributable to holders of non-controlling interests	10,872	7,406
	-41,805	**-95,980**

Consolidated balance sheet

as at September 30, 2021

Assets

in € thousands		Note	2021-09-30	2020-09-30
A.	**Non-current assets**			
I.	Intangible assets	(9)	975,224	986,805
II.	Property, plant and equipment	(10)	1,019,772	1,028,065
III.	Investments accounted for using the equity method	(11)	48,758	21,222
IV.	Securities		12,779	11,945
V.	Other financial assets		55,622	50,966
VI.	Other financial receivables	(15)	47,913	41,657
VII.	Other assets	(15)	18,544	14,453
VIII.	Deferred tax assets	(8)	92,410	244,774
Total non-current assets			**2,271,022**	**2,399,887**
B.	**Current assets**			
I.	Inventories	(12)	681,444	591,912
II.	Trade receivables	(13)	744,140	674,797
III.	Contract assets	(14)	573,952	539,446
IV.	Securities	(16)	51,337	122,693
V.	Current income tax assets		33,996	33,524
VI.	Other financial receivables	(15)	95,127	119,913
VII.	Other assets	(15)	138,854	146,819
VIII.	Cash and cash equivalents	(17)	511,165	581,766
			2,830,015	**2,810,870**
IX.	Assets held for sale	(18)	12,503	6,024
Total current assets			**2,842,518**	**2,816,894**
Total assets			**5,113,540**	**5,216,781**

Equity and liabilities

in € thousands		Note	2021-09-30	2020-09-30
A.	**Equity**			
I.	Issued capital		120,000	120,000
II.	Revenue reserves		925,988	1,040,815
III.	Other reserves		-181,385	-224,617
IV.	Profit participation rights		6,600	6,600
Equity attributable to shareholders of the parent company			**871,203**	**942,798**
V.	Profit participation rights		96,800	96,800
VI.	Other interests		46,774	43,871
Equity attributable to non-controlling interests			**143,574**	**140,671**
Total equity		(19)	**1,014,777**	**1,083,469**
B.	**Non-current liabilities**			
I.	Provisions for pensions and similar obligations	(20)	799,529	825,733
II.	Other provisions	(21)	139,651	139,823
III.	Income tax liabilities		99	-87
IV.	Bank loans and other interest-bearing liabilities	(22)	632,548	665,036
V.	Other financial liabilities	(24)	36,194	36,992
VI.	Other liabilities	(24)	45,417	42,097
VII.	Deferred tax liabilities	(8)	53,517	82,224
Total non-current liabilities			**1,706,955**	**1,791,818**
C.	**Current liabilities**			
I.	Provisions for pensions and similar obligations	(20)	33,180	32,904
II.	Other provisions	(21)	287,411	283,060
III.	Income tax liabilities		37,185	38,994
IV.	Bank loans and other interest-bearing liabilities	(22)	155,061	243,011
V.	Trade payables	(23)	569,575	537,532
VI.	Contract liabilities	(14)	938,859	845,256
VII.	Other financial liabilities	(24)	233,490	216,919
VIII.	Other liabilities	(24)	137,047	142,310
			2,391,808	**2,339,986**
IX.	Liabilities directly associated with assets classified as held for sale	(18)	0	1,508
Total current liabilities			**2,391,808**	**2,341,494**
Total equity and liabilities			**5,113,540**	**5,216,781**

Consolidated statement of changes in equity

in € thousands	Issued capital	Revenue reserves	Financial assets and marketable securities	Cash flow hedges	Currency translation
					Equity attributable to shareholders of the parent company
2020-10-01	**120,000**	**1,040,815**	**-47,601**	**103**	**-140,510**
Net result		-9,059			
Other comprehensive income		-86,850	8	-393	39,081
Total comprehensive income	**0**	**-95,909**	**8**	**-393**	**39,081**
Allocation of profit participation rights		-5,590			
Share of net result attributable to profit participation rights					
Dividends		-20,000			
Non-controlling interests – put options		6,148			
Other adjustments		524			
2021-09-30	**120,000**	**925,988**	**-47,593**	**-290**	**-101,429**

in € thousands	Issued capital	Revenue reserves	Financial assets and marketable securities	Cash flow hedges	Currency translation
					Equity attributable to shareholders of the parent company
2019-10-01	**120,000**	**1,086,916**	**-44,174**	**-764**	**-60,439**
Net result		-3,157			
Other comprehensive income		14,942	-3,427	867	-80,071
Total comprehensive income	**0**	**11,785**	**-3,427**	**867**	**-80,071**
Allocation of profit participation rights		-5,590			
Share of net result attributable to profit participation rights					
Dividends		-47,226			
Acquisition of non-controlling interests		-5,900			
Non-controlling interests – put options		-164			
Other adjustments		994			
2020-09-30	**120,000**	**1,040,815**	**-47,601**	**103**	**-140,510**

Net investment in foreign operations	Profit participation rights	Total	Equity attributable to non-controlling interests: Profit participation rights	Other interests	Total	Total equity
-36,609	**6,600**	**942,798**	**96,800**	**43,871**	**140,671**	**1,083,469**
		-9,059		10,346	10,346	1,287
4,536		-43,618		526	526	-43,092
4,536	**0**	**-52,677**	**0**	**10,872**	**10,872**	**-41,805**
	363	-5,227	5,227		5,227	0
	-363	-363	-5,227		-5,227	-5,590
		-20,000		-4,571	-4,571	-24,571
		6,148		-3,501	-3,501	2,647
		524		103	103	627
-32,073	**6,600**	**871,203**	**96,800**	**46,774**	**143,574**	**1,014,777**

Net investment in foreign operations	Profit participation rights	Total	Equity attributable to non-controlling interests: Profit participation rights	Other interests	Total	Total equity
-4,069	**6,600**	**1,104,070**	**96,800**	**44,190**	**140,990**	**1,245,060**
		-3,157		9,501	9,501	6,344
-32,540		-100,229		-2,095	-2,095	-102,324
-32,540	**0**	**-103,386**	**0**	**7,406**	**7,406**	**-95,980**
	363	-5,227	5,227		5,227	0
	-363	-363	-5,227		-5,227	-5,590
		-47,226		-7,036	-7,036	-54,262
		-5,900		1,051	1,051	-4,849
		-164		-1,453	-1,453	-1,617
		994		-287	-287	707
-36,609	**6,600**	**942,798**	**96,800**	**43,871**	**140,671**	**1,083,469**

Consolidated cash flow statement

in € thousands	2020/21	2019/20
Result before taxes from continuing and discontinued operations	74,864	66,606
Depreciation and amortization	152,948	168,418
Interest expenses/income	21,656	-285
Other non-cash items	16,876	5,406
Gains/losses from the disposal of property, plant and equipment and intangible assets	-482	-511
Gains/losses from investments	-55	-10,881
Changes in provisions and accruals	-7,587	11,375
Change in net working capital	-47,201	45,972
Interest paid	-17,484	-17,653
Interest received	6,088	6,244
Dividends received	1,387	10,794
Taxes paid	-57,416	-51,302
Cash flow from operating activities	**143,594**	**234,183**
Investments in property, plant and equipment and intangible assets	-112,139	-95,803
Proceeds from the disposal of property, plant and equipment and intangible assets	6,148	13,128
Investments in financial assets	-42,556	-9,027
Acquisitions of consolidated subsidiaries minus cash and cash equivalents	0	-414,414
Payments in connection with the acquisition of consolidated companies in the previous year	-17,289	0
Proceeds from the disposal of financial assets	5,491	9,174
Proceeds from the disposal of securities	283,494	476,037
Payments for the acquisition of securities	-208,049	-244,541
Cash flow from investing activities	**-84,900**	**-265,446**
Dividends paid	-30,582	-60,910
Acquisition of non-controlling interests	-21,202	-4,849
New bank loans and overdrafts	42,313	417,132
Repayment of bank loans and overdrafts	-108,849	-95,312
Changes in other interest-bearing financial receivables and liabilities	-28,954	-24,366
Cash flow from financing activities	**-147,274**	**231,695**
Total cash flow	**-88,580**	**200,432**
Exchange rate movements and valuation changes	17,979	-36,540
Cash and cash equivalents at the beginning of the period	581,766	417,874
Cash and cash equivalents at the end of the period	**511,165**	**581,766**

Notes to the consolidated financial statements for the 2020/21 fiscal year

General information

Voith GmbH & Co. KGaA (Voith), which has its headquarters at St. Pöltener Str. 43, Heidenheim an der Brenz, is registered at the commercial register in Ulm, Germany (HRB 735450) and is the parent company of the Voith Group. The Board of Management of Voith Management GmbH (commercial register number HRB 735126) is responsible for the strategy and operative management of the Voith Group. Voith Management GmbH is the personally liable shareholder (general partner) of and is responsible for the management of the business of Voith GmbH & Co. KGaA.

Voith GmbH & Co. KGaA prepares its own consolidated financial statements as at September 30, 2021, in accordance with IFRS as endorsed by the EU, and a Group management report. JMV SE & Co. KG, as parent of the largest group of companies requiring consolidation, prepares consolidated financial statements as at September 30, 2021, in accordance with IFRS as endorsed by the EU, and a Group management report for the largest consolidated group of companies. Both sets of consolidated financial statements are published in the Bundesanzeiger (German Federal Gazette). The Board of Management of Voith Management GmbH authorized the consolidated financial statements for presentation to the Supervisory Board on November 29, 2021.

The preparation of the consolidated financial statements for the 2020/21 fiscal year in accordance with IFRS as endorsed by the EU, and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) was undertaken on a voluntary basis because Voith does not participate in capital markets as defined by EU Regulation (EC) No. 1606/2002. In preparing these consolidated financial statements, Voith has applied all pronouncements which are mandatory for listed companies issued by the International Accounting Standards Board (IASB) as well as the additional requirements of German commercial law pursuant to Sec. 315e HGB (German Commercial Code). The consolidated financial statements have been prepared in euros. Except where explicitly stated otherwise, all amounts are stated in thousands of euros (€ thousand). Minor rounding differences may occur.

The Voith Group is divided into three segments: Hydro, Paper and Turbo (in the previous year, Digital Ventures in addition). Details of the business activities pursued by the Group's segments and the adjustment of the previous-year figures are provided in the explanatory notes on segment reporting.

Consolidated group

In addition to those entities acting as holding companies, the consolidated financial statements also include all the Group's manufacturing, service and sales companies both in Germany and in other countries as at September 30 of each fiscal year. The financial statements of the subsidiaries are prepared for the same period as their parents' financial statements, using consistent accounting policies.

Subsidiary companies are consolidated in full from the date on which the Group obtains control. They are no longer included in the consolidation as soon as the parent company ceases to have control. For five companies (previous year: five), control over companies included in the consolidation is obtained due to the fact that the Group has a majority of voting rights in the relevant decision-making bodies.

The following companies are included in the consolidated financial statements:

	2021-09-30	2020-09-30
Voith GmbH & Co. KGaA and its fully consolidated subsidiaries:		
· Germany	24	24
· Other countries	116	118
	140	**142**
Associates and joint ventures:		
· Germany	4	5
· Other countries	6	6
	10	**11**

The following significant companies are included in the consolidated financial statements:

VZ	Voith GmbH & Co. KGaA, Heidenheim an der Brenz, Germany
VZB	J.M. Voith SE & Co. KG, Heidenheim an der Brenz, Germany
VZUS-VO	Voith US Inc., Appleton (WI), USA
VHH	Voith Hydro GmbH & Co. KG, Heidenheim an der Brenz, Germany
VHY	Voith Hydro Inc., York (PA), USA
VHP	Voith Hydro Ltda, São Paulo (SP), Brazil
VHPO	Voith Hydro GmbH & Co. KG, St. Pölten, Austria
VHM	Voith Hydro Inc., Brossard (QC), Canada
VHS	Voith Hydro Shanghai Ltd., Shanghai, China
VHFK	Voith Fuji Hydro K.K., Kawasaki-shi, Kanagawa, Japan
VHN	Voith Hydro Private Limited, New Delhi, India

VPP	Voith Paper Máquinas e Equipamentos Ltda., São Paulo (SP), Brazil
VPIT	Voith IHI Paper Technology Co., Ltd., Tokyo, Japan
VPC	Voith Paper (China) Co., Ltd., Kunshan, Jiangsu, China
VPFI	Voith Paper Fabrics Ipoh Sdn. Bhd., Chemor, Perak Darul Ridzuan, Malaysia
VPTA	Voith Paper S.A., Ibarra (Guipúzcoa), Spain
VPTI	Toscotec S.p.A., Marlia (LU), Italy
VPBE	BTG Eclépens S.A., Eclépens, Switzerland
VTKT	Shanghai Voith Schaku KTK Coupler Technology Co., Ltd., Shanghai, China
VTCN	Voith Turbo Power Transmission (Shanghai) Co., Ltd., Shanghai, China
VTPA	Voith Turbo Ltda., São Paulo (SP), Brazil
VTGB	Voith Turbo Limited, Croydon, United Kingdom
VTAU	Voith Turbo Pty. Ltd., Smithfield (N.S.W.), Australia
VTIV	Voith Turbo S.r.l., Reggio Emilia, Italy
VTEM	ELIN Motoren GmbH, Preding/Weiz, Austria

An exhaustive list of the companies and other investments included in the consolidated financial statements can be found in the consolidated financial statements. The consolidated financial statements of Voith GmbH & Co. KGaA are filed with the Bundesanzeiger pursuant to Sec. 264b No. 4 HGB and Sec. 264 (3) No. 5 HGB.

Non-controlling interests are held in the following significant subsidiary companies:

Voith Hydro Holding GmbH & Co. KG, Heidenheim an der Brenz, Germany

	2021-09-30	2020-09-30
Non-controlling shareholdings, in %	35	35

The voting share capital held by Voith Hydro Holding GmbH & Co. KG is equal to the percentage of share capital held.

The following table shows the financial data of significant subsidiary companies with non-controlling shareholders (the figures are those of the Voith Hydro Holding GmbH & Co. KG segment):

Voith Hydro Holding GmbH & Co. KG, Heidenheim an der Brenz, Germany

in € thousands	2021-09-30	2020-09-30
Sales	946,828	951,527
Net result	-19,456	-15,739
Net result attributable to non-controlling interests	-11,290	-6,779
Other comprehensive income	19,553	-50,066
Total comprehensive income	97	-65,805
Total comprehensive income attributable to non-controlling interests	-3,473	-24,038
Current assets	872,490	880,722
Non-current assets	243,128	235,566
Current liabilities	864,637	849,723
Non-current liabilities	149,661	160,206
Net assets	101,320	106,359
Net assets attributable to the non-controlling interests	22,232	26,176
Cash flow from operating activities	-62,650	-30,010
Cash flow from investing activities	-12,449	-13,351
Cash flow from financing activities	60,862	17,957
Total cash flow	**-14,237**	**-25,404**
Net foreign exchange difference	1,035	-13,971
Net increase/decrease in cash and cash equivalents	-13,202	-39,375

Business combinations in the 2020/21 fiscal year

There were no material business combinations in the 2020/21 fiscal year.

Business combinations in the 2019/20 fiscal year

ELIN Motoren GmbH

In April 2020, Voith acquired 70% of the shares in ELIN Motoren GmbH, a manufacturer of electric motors based in Austria, and its two subsidiaries and shares in an associate.

ELIN Motoren GmbH is a high-tech company that has operations worldwide in the field of electric motors and generators and provides customized solutions for industrial applications in this context. The acquired group of companies employs a workforce totaling around 960 and generates sales of around €120 million. ELIN Motoren's portfolio is an outstanding supplement to Voith's industrial drive solutions and supports Voith's position as a technology-independent supplier of drive systems.

Under the terms of the business combination, Voith agreed to acquire the remaining 30% of the shares at a later date, where the non-controlling shareholder has fixed exercise periods within which he is able to sell his shares to Voith (put option). Over and above this, Voith has the right to acquire the non-controlling interest within fixed exercise periods (call option). The accounting treatment of the put option gives rise to an obligation of €16.0 million that was reported in financial liabilities. The amount of this obligation was determined using discounted earnings indicators on the basis of the contractually agreed terms, an assumption as to the expected exercise date and an interest rate of 7.5%.

The company and its two subsidiaries have been fully consolidated since May 1, 2020, and are allocated to the Group Division Turbo.

The business combination was presented using the anticipated acquisition method combined with the full goodwill method.

The difference between the purchase price and the acquired net assets revalued to their respective fair values amounting to €35.5 million has been reported as goodwill, and represents the future economic benefit of acquired assets that cannot be identified individually and reported separately.

Since May 1, 2020, ELIN Motoren contributed an additional €51.3 million to the Group's sales. The share in net result for the same period amounted to €0.7 million (this figure includes depreciation and amortization of the assets identified within the scope of the purchase price allocation of €0.2 million).

If ELIN Motoren had been included in the Group for the whole fiscal year, it would have generated additional sales of €69.4 million and a net result of €-3.3 million.

in € thousands	Acquisition date fair value
Intangible assets	3,909
Property, plant and equipment	40,827
Financial assets	449
Inventories	20,796
Receivables and other assets	53,455
Cash and cash equivalents	66
Pension obligations	-4,583
Other liabilities and accruals	-55,037
Liabilities to banks	-37,046
Option – financial liability	-16,000
Deferred tax liabilities	-1,411
Net fair value of equity	**5,425**
Goodwill	35,495
Purchase price of the interests acquired	**40,920**
Cash and cash equivalents	-66
Cash outflows	**40,854**

There are no significant differences between the gross value and the fair value of the receivables.

BTG

Voith acquired 100% of the shares in several BTG companies as at November 30, 2019. BTG is a multinational provider of integrated, highly specialized process solutions for the global pulp and paper industry. With some 600 employees, it will strengthen Voith's position as a full-line supplier in the future. This acquisition will enable Voith to strengthen its competitive position by bundling the potential of both companies.

The subsidiaries of BTG have been fully consolidated since December 1, 2019, and are allocated to our Group Division Paper.

The difference between the purchase price and the acquired net assets revalued to their respective fair values amounting to €191.8 million has been reported as goodwill, and represents the future economic benefit of acquired assets that cannot be identified individually and reported separately.

Since December 1, 2019, the BTG companies contributed an additional €119.7 million to the Group's sales. The share in net result for the same period amounted to €6.2 million (this figure includes depreciation and amortization of €8.5 million on assets identified within the scope of the purchase price allocation).

If the BTG companies had been included in the Group for the whole fiscal year, they would have generated additional sales of €27.6 million and a net result of €4.6 million.

in € thousands	Acquisition date fair value
Intangible assets	124,144
Property, plant and equipment	29,340
Inventories	19,147
Receivables and other assets	27,371
Financial receivables	6,088
Cash and cash equivalents	3,530
Pension obligations	-17,933
Liabilities and accruals	-26,053
Financial liabilities	-3,946
Deferred tax liabilities	-28,261
Net fair value of equity	**133,427**
Goodwill	191,808
Purchase price of the interests acquired	**325,235**
Cash and cash equivalents	-3,530
Cash outflows	**321,705**

There are no significant differences between the gross value and the fair value of the receivables.

Toscotec S.p.A.
At the end of April 2020, Voith acquired 90% of the shares in Toscotec S.p.A., headquartered in Lucca, Italy. Toscotec S.p.A. is a multinational provider of systems, products and services for the paper industry. Its operations focus on machines for producing tissue for use as paper towels, paper napkins or toilet paper. Toscotec S.p.A. employs a workforce of around 200 employees and generates sales of around €100 million. The acquisition will allow Voith to expand its position as a full-line supplier in all areas of the paper industry.

Under the terms of the business combination, Voith agreed to acquire the remaining 10% of the shares at a later date, where the non-controlling shareholder has fixed exercise periods within which he is able to sell his shares to Voith (put option). Over and above this, Voith has the right to acquire the non-controlling interest within fixed exercise periods (call option). The accounting treatment of the put option gives rise to an obligation of €7.3 million that was reported in financial liabilities.

The amount of this obligation was determined using discounted cash flows on the basis of the contractually agreed terms, an estimated exercise date and an interest rate of 7.7%.

The subsidiaries of Toscotec have been fully consolidated since May 1, 2020, and are allocated to our Group Division Paper.

The business combination was presented using the anticipated acquisition method combined with the full goodwill method.

The difference between the purchase price and the acquired net assets revalued to their respective fair values amounting to €67.2 million has been reported as goodwill, and represents the future economic benefit of acquired assets that cannot be identified individually and reported separately.

Since May 1, 2020, the Toscotec companies contributed an additional €55.8 million to the Group's sales. The share in net result for the same period amounted to €0.3 million (this figure includes depreciation and amortization of €0.8 million on assets identified within the scope of the purchase price allocation).

If the Toscotec companies had been included in the Group for the whole fiscal year, they would have generated additional sales of €54.2 million and a net result of €3.3 million.

in € thousands	Acquisition date fair value
Intangible assets	40,477
Property, plant and equipment	10,533
Financial assets	23
Inventories	21,880
Receivables and other assets	54,743
Cash and cash equivalents	32,808
Pension obligations	-930
Other liabilities and accruals	-80,351
Financial liabilities	-33,577
Option – financial liability	-7,300
Deferred tax liabilities	-5,571
Net fair value of equity	**32,735**
Goodwill	67,165
Purchase price of the interests acquired	**99,900**
Cash and cash equivalents	-32,808
Cash outflows	**67,092**

There are no significant differences between the gross value and the fair value of the receivables.

Sintaksa d.o.o.

Towards the end of the 2020 fiscal year, Voith acquired 51% of the shares in Sintaksa. Sintaksa is an innovative technology company headquartered in Croatia that supplies products and renders services in the field of electromechanical systems and automation for the hydropower industry with a strong focus on small hydro. The company places a special focus on control, safety and measuring systems for small hydropower plants. Sintaksa was founded in 2008 and today has a workforce of more than 50 highly qualified employees. The company has grown continually and generates annual sales in the area of €10 million. With this acquisition, Voith is taking the next step on the way towards becoming a small hydro systems integrator.

Under the terms of the business combination, Voith agreed to acquire the remaining 49% of the shares at a later date, where the non-controlling shareholders are, subject to certain conditions, entitled to sell their shares to Voith (put option). Over and above this, Voith has the right to acquire the non-controlling interest within fixed exercise periods (call option). The accounting treatment of the put option gives rise to an obligation of €2.3 million that was reported in financial liabilities.

The amount of this obligation was determined using discounted cash flows on the basis of the contractually agreed terms, an estimated exercise date and an interest rate of 7.5%.

The business combination was presented using the anticipated acquisition method combined with the full goodwill method.

The difference between the purchase price and the acquired net assets revalued to their respective fair values amounting to €2.7 million has been reported as goodwill, and represents the future economic benefit of acquired assets that cannot be identified individually and reported separately.

Sintaksa has been consolidated in the Voith Group since September 30, 2020.

If Sintaksa had been included in the Group for the entire fiscal year, it would have generated additional sales of €8.1 million and a net result of €0.3 million.

in € thousands	Acquisition date fair value
Intangible assets	1,142
Property, plant and equipment	1,182
Financial assets	32
Inventories	906
Receivables	549
Cash and cash equivalents	972
Other liabilities and accruals	-1,666
Liabilities to banks	-322
Option – financial liability	-2,310
Net fair value of equity	**485**
Goodwill	2,664
Purchase price of the interests acquired	**3,149**
Cash and cash equivalents	-972
Cash outflows	**2,177**

There are no significant differences between the gross value and the fair value of the receivables.

Discontinued operations in the 2020/21 fiscal year

The decision was made in the 2020/21 fiscal year to abandon the business operations of merQbiz LLC. Likewise, they were closed down in the reporting year. In the previous year, the business activities of merQbiz LLC were treated as held for sale and discontinued operations.

The following items were disclosed in the statement of income in the net result from discontinued operations relating to merQbiz LLC:

in € thousands	2020/21	2019/20
Income	446	795
Expenses	-5,676	-7,358
Operational result before taxes	**-5,230**	**-6,563**
Income taxes	0	0
Net result	**-5,230**	**-6,563**

There were no impairment losses as a consequence of the application of the provisions of IFRS 5.15, as was the case in the previous year.

Cash flow from discontinued operations:

in € thousands	2020/21	2019/20
Cash flow from operating activities	-3,865	-5,570
Cash flow from investing activities	791	-28

Basis of consolidation

Acquisition accounting is performed using the acquisition method in accordance with IFRS 3. Accordingly, the consideration transferred to the seller plus any non-controlling interests and the fair value of the previously held equity interests in the acquiree are offset against the fair value of the acquired assets and liabilities as at the acquisition date. Any excess of cost over carrying amount is recognized as goodwill. Any excess of carrying amount over cost is recognized in profit or loss.

Any contingent consideration is recognized at acquisition date fair value. Subsequent changes to the fair value of the contingent consideration, which represents an asset or liability, are recognized either in profit or loss or in other comprehensive income in accordance with IFRS 9. If the contingent consideration is classified as equity, it is not remeasured and its subsequent settlement is accounted for within equity.

In the case of business combinations achieved in stages that give rise to control over an entity, or in the case of disposals of shares which result in a loss of control, the previously held or remaining equity interests are remeasured at fair value through profit or loss.

A change in the parent's ownership interest in a subsidiary that does not result in a loss of control is accounted for as an equity transaction. Accordingly, business combinations achieved in stages where the Group already has control or disposals of shares without a loss of control have been recognized directly in equity without affecting the result for the period from the 2009/10 fiscal year onwards.

Companies in which Voith GmbH & Co. KGaA has the power to directly or indirectly exercise a significant influence on financial and operating policy decisions (associates) are accounted for using the equity method, as are joint ventures over which common control is exercised together with other companies. Changes in the share of the associate/joint venture's equity that are not recognized in profit or loss are likewise recognized directly in equity in the consolidated financial statements. The same accounting policies are used to determine Voith's share in equity of all companies accounted for using the equity method.

Receivables and liabilities between the consolidated companies are eliminated on consolidation. Intercompany profits in inventories and non-current assets are eliminated in the consolidated statement of income. Intercompany sales and other intercompany income are netted against the corresponding expense. Deferred tax is recognized for consolidation transactions.

Foreign currency translation

The consolidated financial statements are presented in euros, which is Voith GmbH & Co. KGaA's functional currency. Financial statements prepared by subsidiaries that use a different functional currency are translated as follows:

The equity of foreign companies included in the consolidated financial statements is translated at historical rates. All other items on the balance sheet are generally translated to the presentation currency at the rates applicable as at the reporting date. Goodwill arising from business combinations before transition to IFRS reporting is an exception to this rule. This goodwill continues to be translated at historical exchange rates.

In the statement of income, income and expenses are translated at average exchange rates. Retained earnings and losses are translated using the relevant historical exchange rate.

Differences arising from currency translation are netted with other reserves.

Foreign currency transactions in local financial statements are translated at the historical exchange rates. At fiscal year-end the resulting monetary items are measured at the closing rate, and any exchange rate gains or losses are recorded as foreign exchange gains or losses under other operating income/expenses.

Exchange rate gains or losses resulting from long-term loans and liability balances, both between Group companies and on external balances, as well as valuation effects arising from their associated hedging instruments, are reported within financial results in the statement of income.

Currency translation differences arising from loans denominated in foreign currencies (where these are used to hedge a net investment in foreign operations) are recognized in other comprehensive income until the underlying net investment is disposed of. These currency translation differences give rise to deferred tax items that are also recognized under other comprehensive income.

Accounting policies

Consistent accounting policies are used to prepare the separate financial statements for the companies included in the consolidated financial statements. Significant accounting policies are described below.

Sales

In accordance with IFRS 15, revenue is recognized upon transfer of control of the goods or services to the customer. The amount of revenue is determined on the basis of the transaction price taking account of variable consideration. The latter is only included in determining the transaction prices if it is highly probable that there will be no subsequent sales reversals. The “most likely amount” method is generally chosen for estimating such variable consideration. The performance obligations identified are realized both over time and at a point in time.

Specifically with construction contracts for customer-specific plant and equipment at Voith Paper and Voith Hydro, revenue is recognized over time if the transaction meets the criteria of IFRS 15.35. Such contracts are consequently recognized in accordance with the percentage-of-completion (PoC) method. The percentage of completion per contract to be recognized is calculated as the ratio of the actual costs incurred to the anticipated total costs of the project (“cost-to-cost method”). If the outcome of a construction contract cannot be estimated reliably, it is not possible to calculate contract revenue and costs based on the percentage of completion. In such cases, revenue is recognized at the amount of costs incurred for the construction contract to date, with the contract costs being recognized immediately and in full in the period in which they are incurred. Expected losses on such contracts are based on recognizable risks. In the case of contracts that are presented using the PoC method, there is essentially only one performance obligation. In addition, revenue is recognized over time in the case of service contracts and customer-specific products from the Group Divisions Turbo and Paper. In the latter case the criterion of no alternative use will, in some instances, only be met at a later point in time, therefore recognition over time is not performed until this criterion is met.

For all other products, revenue is recognized at the point in time at which the customer obtains control. This is generally the case when merchandise has been delivered or services performed and the risk of ownership has been transferred to the customer. If, in the case of consignment warehouse agreements, control has already been transferred upon warehousing at the customer’s premises, revenue is recognized at this point in time.

Voith uses the practical expedients pursuant to IFRS 15.129 and does not adjust transaction prices for significant financing components, as the period between transfer of the goods or provision of the service and payment by the customer is less than one year. Furthermore, the costs to obtain a contract are not capitalized and amortized over the life of the contract as the amortization period would be less than one year. In the case of contracts with a term of less than one year, the transaction prices for obligations not yet fulfilled are not disclosed in accordance with the practical expedients of IFRS 15.

Other income and expenses

Interest expenses and income are recorded as they arise (using the effective interest method, i.e. the effective interest rate with which the estimated future cash flows from the asset are discounted to the financial asset's net book value over the expected term to maturity of the financial instrument).

Dividend income is recognized when the Group's right to receive the payment is established.

Operating expenses are recognized as expenditure at the time when a service is used and other sales-related expenses are recognized as incurred. Taxes on income are calculated in accordance with tax law in the countries in which the Group operates.

For all measurement categories recognized in accordance with IFRS 9, net gains or losses as defined in IFRS 7 result from the measurement or disposal of financial instruments. At Voith, such income and expense items mainly consist of foreign exchange gains and losses, impairments, and gains/losses from the sale of financial instruments. Neither current interest income and expenses nor dividend income are included.

Intangible assets

Intangible assets acquired for monetary consideration are recognized at acquisition cost and amortized on a straight-line basis over their estimated useful lives. Amortization is recognized on a straight-line basis over the following useful lives:

Useful life

Customer relationships	5 to 17 years
Technology	5 to 19 years
Development costs	1 to 5 years

Internally generated intangible assets are capitalized as development costs based on their production costs, provided that manufacture of these assets meets the recognition criteria stated in IAS 38 and, in particular, that the generation of future economic benefits is probable. The production costs include all costs which are directly attributable to the development process and a proportionate share of overheads. These assets are amortized using the straight-line method from the date of completion, i.e. the start of production, over a defined period, which is usually between three and five years. If the requirements for capitalization are not satisfied, expenses are recognized in profit or loss in the fiscal year in which they were incurred.

Impairment losses are recorded in accordance with IAS 36 if the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's value in use, the present value of expected future cash flows from the use of the asset, and the fair value less costs to sell. Should the reasons for impairment losses recognized in previous periods no longer apply, these impairment losses are reversed.

The reversal posted through profit or loss is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in previous years.

Impairment losses are generally shown in the statement of income under depreciation and amortization. Reversals of impairment losses are reported under other operating income. Borrowing costs that are directly attributable to intangible assets are capitalized as part of the cost of those assets.

Goodwill is tested for impairment at least annually. For impairment testing, goodwill is assigned to essentially three groups of cash-generating units. In line with the management's internal reporting practices, these are identified on the basis of the Group's operating activities. Voith has therefore defined the segments Hydro, Paper and Turbo as relevant groups of cash-generating units. In previous years, goodwill was created in the Digital Ventures segment that existed until the 2019/20 fiscal year stemming from the acquisition of Ray Sono AG, from the increase in Voith's holdings in FlowLink Systems Private Ltd., from the acquisition of shares in Pilotfish Networks AB and from the acquisition of assets and liabilities of TSP OnCare Digital Assets Inc. This goodwill is tested for impairment on a stand-alone basis at the level of the respective unit. The change in the segment structure therefore did not have any impact on the cash-generating units – groups of cash generating units – relevant for impairment testing.

The Voith Group generally determines whether goodwill is impaired by reference to the fair value less costs to sell. This is based on the discounted cash flow projections taken from the latest business planning prepared by management. The planning assumptions are adjusted to reflect the current information available. Key assumptions on which calculations of fair value are based include assumptions about the trend in orders received and sales, growth rates, extrapolated cash flow forecasts beyond the planning horizon, and discount rates. Due account is taken of reasonable assumptions regarding macroeconomic trends and historical developments. Based on the value in use measurement of these assets there was no indication of a need to record an impairment loss on goodwill.

For the purposes of the impairment tests the following assumptions were made concerning the cash-generating units:

Voith Hydro:
After an appreciable increase in orders received in the reporting year, a slight decline in orders received is expected for the 2021/22 fiscal year. For the 2021/22 fiscal year, we expect a slight rise in sales at Voith Hydro while further rises in sales are anticipated over the following years.

Voith Paper:
After a sharp increase in the reporting year, a perceptible decline in orders received is expected for the 2021/22 fiscal year. For the 2021/22 fiscal year, the Group Division Paper is expecting a perceptible rise in sales while a further rise in sales is expected over the following years.

Voith Turbo:
After a perceptible rise in orders received in the reporting year, a slight increase in orders received is expected for the 2021/22 fiscal year. Voith Turbo anticipates stable sales for the 2021/22 fiscal year and rising sales over the subsequent years.

Ray Sono AG:
Perceptible growth consistent with trends in the digital market is expected for orders received and sales over the planning years.

FlowLink Systems Private Limited:
Moderate increases in orders received and sales are anticipated for the planning years.

Pilotfish Networks AB:
Appreciable increases in orders received and sales are anticipated for the planning years.

TSP OnCare Digital Assets Inc.:
Moderate increases in orders received and sales are anticipated for the planning years.

The cash flow forecast is based on the detailed finance budget for the coming two years and a qualified top-down projection for years three to five. Cash flows for periods after the fifth fiscal year are extrapolated at a constant growth rate of approximately 1% (Ray Sono AG: 2%). These growth rates do not exceed the average long-term growth rates of the business segments in which the corresponding cash-generating unit operates.

The discount rates are arrived at by determining the weighted average cost of capital, which is based on the financing costs of comparable competitors for each of the cash-generating units. The discount rates used reflect the specific equity risk associated with the respective cash-generating units. The present values of future net cash inflows are determined using after-tax interest rates of 5.3% for Voith Hydro (previous year: 5.8%), 6.3% for Voith Paper (previous year: 6.8%), 6.4% for Voith Turbo (previous year: 7.0%), 6.2% for Ray Sono AG (previous year: 6.6%), 6.2% for FlowLink Systems Private Ltd., Pilotfish Networks AB and TSP OnCare Digital Assets Inc. (previous year: 6.7%). The pre-tax rates required for IAS 36 disclosures, which are derived from the after-tax rates, are 7.1% for Voith Hydro (previous year: 7.6%), 8.5% for Voith Paper (previous year: 8.7%), 9.0% for Voith Turbo (previous year: 8.7%), 8.0% for Ray Sono AG (previous year: 8.8%), 8.3% for FlowLink Systems Private Ltd. (previous year: 8.9%), 7.4% for Pilotfish Networks AB (previous year: 8.1%) and 8.0% for TSP OnCare Digital Assets Inc. (previous year: 8.5%).

The potential changes in the discount rate of +1 percentage point and in the anticipated future cash flow of -5% assumed by the management for the three segments and for FlowLink Systems Private Ltd., for Pilotfish Networks AB and for TSP OnCare Digital Assets Inc. do not give rise to any impairment. For RaySono AG, an increase in the discount rate of more than 1.3 percentage points or a decrease in future cash flows of more than 23% would result in a need to record an impairment loss.

The brands acquired in the previous year as part of the acquisition of BTG and Toscotec are classified as intangible assets with an indefinite useful life. The brands are tested for impairment in a similar procedure and as at the same measurement date (March 31) as with the impairment test of the goodwill.

On the basis of an analysis of all relevant factors for determining the useful life of the BTG and Capstone brands (legal, contractual and economic factors as well as the competitive situation), it is not possible to identify a limit on the period in which cash flows from the BTG and Capstone brands can be expected. The carrying amount of the brand BTG as at the reporting date is €39.4 million (€38.8 million as at the acquisition date) and the brand Capstone is €2.8 million (€2.9 million as at the acquisition date). The changes since the acquisition date are exclusively attributable to exchange rate differences.

For the purpose of impairment testing, the BTG and Capstone brands were allocated to the “BTG” and “Capstone” cash-generating units. As part of impairment testing, the recoverable amount was determined by establishing the value in use on the basis of the present value of future cash flows based on a 5-year financial planning. This planning is used to derive cash flows for the following years with different growth rates being applied. A growth factor of 1% is applied for the terminal value. The discount factor (before taxes) for the future cash flows is 8.5% (previous year: 9.2%) for BTG and 8.0% (previous year: 8.7%) for Capstone, respectively, for the 2020/21 fiscal year.

On the basis of an analysis of all relevant factors for determining the useful life of the Toscotec brand (legal, contractual and economic factors as well as the competitive situation), it is not possible to identify a limit on the period in which cash flows from the Toscotec brand can be expected. As at the reporting date, the carrying amount came to €24.7 million, unchanged from the acquisition date.

For the purpose of impairment testing, the Toscotec brand was allocated to the “Toscotec” cash-generating unit. As part of impairment testing, the recoverable amount was determined by establishing the value in use on the basis of the present value of future cash flows based on a 5-year financial planning. This planning is used to derive cash flows for the following years with different growth rates being applied. A growth factor of 1% is applied for the terminal value. The discount factor (before taxes) for the future cash flows is 8.1% (previous year: 8.8%) for the 2020/21 fiscal year.

The impairment testing performed did not lead to any need to recognize impairment losses on the brands.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and after deduction of any impairment losses. The production cost of internally produced property, plant and equipment includes all directly attributable production costs and an appropriate share of production overheads. Depreciation is recognized on a straight-line basis over the following useful lives:

Useful life

Buildings	40 to 50 years
Plant and machinery	4 to 15 years
Other equipment, furniture and fixtures	4 to 12 years

The carrying amount of property, plant and equipment capitalized is tested for impairment if unusual events or market developments give rise to indications of impairment. To this end, the carrying amount of an asset or cash-generating unit is compared with its recoverable amount, which is defined as the higher of fair value less costs to sell and value in use. Impairment losses are reversed if the fair value of a previously impaired asset subsequently increases again.

The reversal posted through profit or loss is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in previous years.

Impairment losses are generally shown in the statement of income under depreciation and amortization. Reversals of impairment losses are reported under other operating income. However, significant impairment losses, particularly those associated with the discontinuation of operations, are presented under the non-recurring result.

Repair and maintenance costs are recognized as expenses at the time when they are incurred. Any major renewals or improvements are capitalized. Borrowing costs that are directly attributable to property, plant and equipment are capitalized as part of the cost of those assets.

Leases

IFRS 16 defines a lease as a contract (or part of a contract) that conveys the right to use an identifiable asset (the underlying asset) for an agreed period of time in exchange for consideration. In this context, a contract is an agreement between two or more parties (lessor and lessee) that creates enforceable rights and obligations. In accordance with IFRS 16, the Voith Group, acting as lessee, generally recognizes all leases in the form of a right of use and a corresponding liability. The lease liability is recognized at the present value of future lease payments taking into account extension, termination and purchase options that are reasonably certain to be exercised. The right of use is calculated with the amount of the lease liability plus all lease payments made upon or prior to provision of the leased asset and initial direct costs and estimated costs for the disassembly, disposal or restoration of the leased asset, less all incentive payments received from the lessor. The right of use is depreciated on a straight-line basis and the lease liability is accreted applying the effective interest method taking account of the incremental borrowing rate of the lessee and the lease payments. To determine its incremental borrowing rate, the Voith Group obtains interest rates from various external sources of finance and makes certain adjustments to take into account the terms of the lease and the type of asset. Lease payments are split into a principal component and interest payments. In the cash flow statement, the interest component is disclosed in the cash flow from operating activities, whereas the repayments of lease liabilities are shown as part of the cash flow from financing activities.

The Voith Group makes use of the simplifications contained in IFRS 16 for short-term and low-value leases (up to USD 5 thousand). Payments under such leases are recognized as expenses directly in the statement of income. The provisions of IFRS 16 on the accounting treatment of leases are not applied to leases for intangible assets. Similarly, leases within the Group are not accounted for in accordance with IFRS 16 so that for the segment reporting pursuant to IFRS 8 the lease payments under these lease arrangements will continue to be recorded in profit or loss over the term of the lease using the straight-line method. At every reporting date, the carrying amounts of rights of use under lease arrangements are assessed for any indication of impairment. If there are any such indications, an impairment test will be performed.

Financial instruments

A financial instrument is any contract that simultaneously gives rise to a financial asset of one party to the contract and a financial liability or equity instrument of the other party to the contract. Financial assets and liabilities are recorded for the first time on the trading date and recognized in the consolidated balance sheet when Voith is a contract party to a financial instrument.

For the classification of financial instruments, the Group distinguishes between the following measurement categories: measured at amortized cost (AC), measured at fair value through other comprehensive income (FVOCI) and measured at fair value through profit or loss (FVTPL).

Financial assets (debt instruments) – measured at amortized cost (“AC”)

The Group recognizes debt instruments at the date they are originated. Such assets are initially recognized either at fair value plus directly attributable transaction costs or, in the case of trade receivables, at the transaction price. Subsequent to initial recognition, they are measured at amortized cost (AC) to the extent that the objective of the business model is to hold the financial assets in order to realize the contractual cash flows. In this respect, the cash flow condition (“SPPI criterion”) is met when the contractual terms of the financial asset give rise to cash flows at determined points in time that constitute solely payments of principal and interest (SPPI).

Financial assets (equity instruments) – measured at fair value through other comprehensive income (“FVOCI”)
Generally speaking, equity instruments are to be measured at fair value through profit or loss upon initial recognition. During first-time recognition, it is possible to exercise an irrevocable option of classifying equity instruments as measured at fair value through other comprehensive income. Equity instruments may be classified as measured at fair value through other comprehensive income only if they are neither held for trading nor constitute contingent consideration as part of a business combination (OCI option). Voith exercised the OCI option for equity instruments held as a strategic investment in order to supplement the Group’s business operations. They are measured at fair value through other comprehensive income. Furthermore, the Group holds financial assets to cover future pension obligations. These pension funds are not held for trading. Consequently, Voith also exercised the OCI option for these instruments, with the underlying financial assets being measured at fair value through other comprehensive income (FVOCI). There is no intention to generate short-term gains on disposal of any material amount from such instruments. For this reason, fluctuations in the measurement of investments and the financial assets used for securing pensions should not have any effect on the statement of income. Changes in the market value arising from subsequent measurement and accumulated gains/losses in the event of derecognition at a later date are posted directly in equity and are never reclassified with an effect on profit or loss.

Financial assets (equity instruments) – measured at fair value through profit or loss (“FVTPL”)
Voith decided not to exercise the OCI option for financial assets that are not held as a strategic investment. These equity instruments are held with a view to generating income from the financial instruments. For this reason, gains and losses from the disposal of shares and fluctuations in the measurement of the investments are to be recorded in the statement of income.

Financial liabilities – measured at amortized cost (“AC”)
Non-derivative financial liabilities are measured on initial recognition at fair value less attributable transaction costs. Subsequent to initial recognition, the Group classifies them as other financial liabilities measured at amortized cost.

Derivative financial instruments – measured at fair value through profit or loss (“FVTPL”)
All derivative financial instruments are recognized at fair value on the trading date. The derivative financial instruments are classified as held for trading and thus assigned to the measurement category “FVTPL” (measured at fair value through profit or loss) unless they are designated as being a hedging instrument and are effective as such.

Fair value

The fair value of investments for which an organized market exists is determined by the quoted market price at the reporting date. Where no active market exists, valuation techniques are used to determine the fair value. The techniques used by Voith for this purpose aim to reflect objective criteria as accurately as possible and to simulate an active market. This is done, for example, by analyzing discounted cash flows, referring to arm's length transactions between knowledgeable, willing and independent partners, and drawing on comparisons with the current fair value of other financial instruments which are identical in all significant aspects.

Derivative financial instruments and hedging

Voith uses a variety of financial derivatives – such as forward exchange contracts and interest rate swaps – to hedge underlying transactions. Essentially, the Group applies fair value hedge accounting of firm commitments to hedge operating business transactions. The Group continues to use the provisions of IAS 39 for the recognition of hedges.

At the inception of a hedge relationship, the Group formally designates and documents both the underlying transaction and the hedging instrument as well as the risk management objective and strategy for entering into the hedge. This documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value that is attributable to the hedged risk. Such hedging relationships are considered to be highly effective in offsetting the risks of fair value changes. Currency hedges are used in line with the contracts in question (term, volume). Their effectiveness is assessed on an ongoing basis to determine whether they have been highly effective throughout the financial reporting periods for which the hedge was designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as described below:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment that is attributable to a particular risk and could affect profit or loss for the period. In the case of fair value hedges, the carrying amount of a hedged item is adjusted by the profit or loss that is attributable to the hedged exposure, and the difference is reported in profit or loss. The derivative financial instrument is remeasured at its fair value and any gains or losses arising as a result are recognized in profit or loss.

For fair value hedges relating to hedged items carried at amortized cost, the adjustment to the carrying amount is amortized through profit or loss over the remaining term to maturity.

When an unrecognized firm commitment is designated as a hedged item, the subsequent accumulated change in the fair value of the firm commitment that is attributable to the hedged risk is recognized as an asset or liability and the corresponding gain or loss is recognized in the profit or loss for the period. Changes in fair value of the hedging instrument are also recognized in the profit or loss for the period.

The Group discontinues fair value hedge accounting if the hedging instrument expires, is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Every adjustment to the carrying amount of a hedged financial instrument is released to income using the effective interest method. The reversal may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for hedging gains and losses.

Cash flow hedges
Hedging transactions are classified as cash flow hedges when the transactions hedge the risk of changes in cash flows which can be attributed to a risk affecting a recognized asset, a recognized liability or a planned transaction, and could affect profit or loss for the period. The effective portion of the gain or loss on a hedging instrument is recognized directly in equity, while the ineffective portion is recorded in the statement of income.

The amounts recorded in equity are reclassified to the statement of income in the period in which the hedged transaction affects the statement of income, e.g. in which the hedged financial income or expense is recorded or in which a planned sale or purchase is made. If the underlying hedged transaction is the acquisition of a non-financial asset or a non-financial liability, the amounts recorded in equity are included in the initial carrying amount of the non-financial asset or a non-financial liability.

If the planned transaction is no longer expected to occur, the amounts recorded previously in equity are transferred to the profit or loss for the period. When the hedging instrument expires, is sold, terminated, or is exercised without a hedging instrument being replaced or rolled over into another hedging instrument or when the Group ceases to designate a hedging instrument as such, the amounts previously recorded remain as a separate item in equity until the planned transaction occurs. If the planned transaction is no longer expected to occur, the amount is recognized in profit or loss.

Embedded derivatives
Pursuant to IFRS 9, embedded derivatives where the underlying is a financial asset covered by the standard are never accounted for separately. Instead, the hybrid financial instrument as a whole is assessed with regard to classification.

In the event of there being embedded derivatives for which separate recognition is required, such derivatives are classified as held for trading and thus assigned to the measurement category “FVTPL” (measured at fair value through profit or loss). Embedded financial derivatives with positive fair values are stated under other financial receivables; those with negative fair values are stated under bank loans and other interest-bearing liabilities or other financial liabilities.

Inventories

Raw materials and supplies, merchandise, work in progress and finished goods are all stated under inventories at the lower of cost and net realizable value. In addition to direct costs, cost includes an appropriate portion of necessary materials and production overheads as well as production-related depreciation that can be directly allocated to the production process. The average cost, or cost based on the first-in, first-out (FIFO) method, is capitalized in the balance sheet. Appropriate allowance is made for inventory risks associated with slow-moving stocks, reduced salability, etc. When the circumstances that previously caused inventories to be written down below cost no longer exist, the write-down is reversed.

Contract assets and contract liabilities

Contract assets constitute an entity's right to consideration in exchange for goods already transferred or services already performed. In the Voith Group, contract assets essentially consist of long-term projects at Voith Hydro and Voith Paper, which are recognized over time in accordance with IFRS 15.35. Contract assets are disclosed at the percentage of completion to be recognized less any customer payments already received. The customer payments are contractually agreed and are generally dependent on project progress and/or predetermined milestones.

If customer payments exceed the performance already completed, the resulting balance is disclosed under contract liabilities. Furthermore, contract liabilities include advances received from customers for products where revenue is recognized at a specific point in time.

Receivables and other assets

Receivables and other assets (with the exception of derivatives) are assigned to the measured at amortized cost ("AC") measurement category and are initially recognized either at fair value plus directly attributable transaction costs or, in the case of trade receivables, at the transaction price. Subsequent to initial recognition they are measured at amortized cost. They are regularly tested for impairment on an individual basis. Where objective evidence of a potential loss exists (for example, if the debtor is experiencing significant financial difficulty, if it is highly probable that insolvency proceedings will be opened against the debtor, if the debtor defaults on or is in arrears with interest or principal payments, if significant adverse changes in the technological, economic or legal environment of the contracting partner occur, if there is a significant or prolonged decline in the fair value of a financial instrument below its cost, or if legal proceedings are opened), individual allowances are recorded using an allowance account to reflect these factors. Furthermore, the estimated aggregate credit losses are calculated using a forward-looking credit risk management system based on CDS spreads. In doing so, the receivables are segmented according to common default risk features. A decline in the volume of receivables brings about a corresponding decrease in such provisions and vice versa. Impaired receivables are derecognized when they are assessed as uncollectible. Interest-free or low-interest receivables due in more than one year are discounted.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and checks, cash at banks and cash equivalents. Cash at banks includes both daily deposits and time deposits with fixed maturities of up to three months.

Discontinued operations and non-current assets held for sale

Non-current assets and disposal groups held for sale are classified as non-current assets held for sale or as liabilities directly associated with assets classified as held for sale, respectively, if their carrying amount is to be recovered through sale rather than through continuing use. This condition is regarded as met when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. In this case, management has decided to sell the asset and it is expected that the sale will take place within 12 months from the date of classification. Non-current assets held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. Assets held for sale are not subject to depreciation and amortization.

Discontinued operations are recognized as soon as any component of an entity with business activities and cash inflows and outflows that can be clearly distinguished from the rest of the entity for operational and accounting purposes is classified as held for sale or has already been disposed of, and such division either (1) represents a separate major line of business or a geographical area of operations, and (2) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or (3) is a subsidiary exclusively acquired with a view to resale. The net result of discontinued operations is reported separately from income and expenses from continuing operations in the consolidated statement of income. Figures shown for previous years are presented on a comparable basis. Cash inflows and outflows from discontinued and continuing operations are not presented separately in the consolidated cash flow statement, and figures shown for previous years in the cash flow statement are not restated. Figures disclosed in the notes to the consolidated financial statements for items in the consolidated statement of income relate to continuing operations. Information on discontinued activities is provided in the section “Disposals and discontinued operations”. Sales and expenses generated within the Group have been eliminated in order to present the financial effect of the discontinued operations with the exception of sales and expenses which are expected to continue after the sale of the discontinued operations.

Deferred and current taxes

In accordance with IAS 12, deferred tax assets and liabilities are recognized for temporary differences (temporary concept). Deferred tax assets are also recognized for tax losses carried forward, interest carryforwards and tax credits insofar as it is reasonable to expect that they will be realized in the near future. Taxes that relate to items recognized under other comprehensive income are also themselves recognized in equity. Deferred taxes are calculated based on the tax rates enacted or substantively enacted by the reporting date that apply or are expected to apply in the countries concerned at the time of realization. Deferred tax assets on tax losses carried forward, interest carryforwards and tax credits that are not likely to be realized or that are not covered by deferred tax liabilities are either written down or not recognized at all. Deferred tax assets and deferred tax liabilities are presented on a net basis if the Group has a legal right to offset current tax assets against current tax liabilities and they relate to income taxes levied by the same taxation authority. No deferred taxes are recognized in connection with the first-time recognition of goodwill or in the case of initial recording of an asset or a liability for transactions that do not constitute business combinations and do not have any effect on the reported or taxable earnings.

Current taxes are calculated and reported in accordance with the tax laws and regulations valid for each company.

Profit participation rights

Profit participation rights amounting to €103,400 thousand are reported as a separate component of the Group's equity, in accordance with IAS 32. Interest is not reported as interest expenses, but is treated in a similar manner to a dividend obligation.

Provisions for pensions and similar obligations

Provisions for pension obligations are measured based on actuarial valuation methods using the prescribed projected unit credit method for defined benefit plans as required by IAS 19. This method considers not only the pensions and future claims known at the end of the reporting year but also future anticipated increases in salaries and pensions. Defined benefit obligations are measured based on the proportion of future benefits accrued at the reporting date. Measurement includes assumptions about the future development of certain parameters that could affect the actual future benefit amount. The expenses for these benefit plans are divided into service cost and interest expenses on the net debt from the obligations and plan assets. Both expense items are recognized in the statement of income. Revaluations of the net debt recognized are disclosed under other comprehensive income net of deferred taxes.

Other provisions

Provisions are recognized for all discernible risks and uncertain obligations at the amount that is likely to be realized. These provisions are not netted against recourse claims. Provisions are recognized when the Group has a present obligation to a third party as a result of a past event and it is probable that an outflow of resources will be required whose amount can be estimated reliably. Provisions for warranty claims are based on historical claim trends and estimated future trends. Specific provisions are set up for known claims. Provisions for outstanding expenses, onerous contracts and other business-related obligations are measured based on services still to be rendered, usually at the amount of the costs to sell.

Provisions which do not lead to an outflow of resources in the following year are carried at the discounted settlement amount at the reporting date. The discount rate used is derived from market interest rates. The settlement amount also includes the estimated cost increases. If an amount set aside as a provision is expected to be refunded (through an insurance claim, for example), the refund amount is stated separately as an asset only if it is virtually certain. Income from refunds is not netted against expenses.

Liabilities

Current liabilities are stated at the amount needed to settle the obligation. Financial liabilities are measured at their amortized cost. Amortized cost corresponds to the cost of the financial liabilities adjusted for repayments, issue costs and the amortization of any debt discounts or debt premiums. Where liabilities are accounted for as hedged transactions, they are measured taking into account the market value of the hedged risk. Gains and losses are recognized in profit or loss.

Liabilities arising from leases are recognized at the present value of the minimum lease payments at the start of the lease and subsequently stated under financial liabilities at their amortized cost. Lease payments are split into an interest component and a principal component. The interest component of each payment is recognized as an expense in the statement of income.

Classification of non-controlling interests of third-party shareholders in limited partnerships based on termination rights of non-controlling shareholders and put options

In accordance with IAS 32, financial instruments that entitle the holder to repayment of the capital made available to the partnership must be classified as liabilities. In companies that operate as limited partnerships, partners have the right under German law to demand repayment of the capital they have made available to the partnership. This right cannot be excluded by the partnership agreement. This provision also extends to other comparable repayment rights of holders of non-controlling interests with a settlement agreement. Put options create sale rights for the holder of the put pursuant to IAS 32.

a) Put options

Where the right to terminate on the part of non-controlling interests exists in the form of a put option, the corresponding non-controlling interests are not derecognized but are treated as a component of equity during the reporting year. Based on this, a share of net result for the year is allocated to holders of non-controlling interests. At each reporting date, it is assumed that the put option will be exercised and the corresponding non-controlling interests are reclassified from equity to financial liabilities. This financial liability is recognized in the amount of the estimated compensation obligation and measured at fair value. The difference between this liability and the share of equity attributable to non-controlling interests is treated as a transaction between owners and has been recognized from the 2009/10 fiscal year onwards as a change in equity without any effect on the statement of income. Until and including the 2008/09 fiscal year such transactions were regarded as a business combination achieved in stages and the difference stated as goodwill. The Group elected to retain these amounts under the transitional arrangements provided for under IAS 27 (2008).

Two material options were exercised in the current fiscal year. By doing so, Voith acquired 100% of the shares in the companies. A total of €20,625 thousand was paid for exercising the put options.

The amounts reclassified from equity to financial liabilities came to a total of €38,507 thousand in the 2020/21 fiscal year (previous year: €62,146 thousand).

b) Limited partnerships
Liabilities from interests held in limited partnerships as well as non-controlling interests with comparable termination rights are measured at amortized cost. The measurement-related changes in the liability are recognized in the interest result in the consolidated statement of income.

If the non-controlling interests in limited partnerships are terminated or if the respective comparable termination rights or put options are exercised, the financial liabilities recognized prior to termination or exercise of the put options are reclassified as other financial liabilities.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. These financial guarantee contracts are treated as insurance contracts as defined by IFRS 4, i.e. the financial guarantee contracts are disclosed as contingent liabilities until utilization becomes probable. When this is the case, the corresponding obligation is recognized.

Exercise of judgment and estimates by management

The presentation of net assets, financial position and earnings position in the consolidated financial statements requires the exercise of judgment by management. Management has exercised judgment in the following instances:

- Income taxes: management must make assessments on whether deferred tax assets are impaired and on risks from uncertain tax items
- Determining the requirement for, and measuring the amount of, impairment of intangible assets and property, plant and equipment
- Determining the requirement for allowances against doubtful receivables
- Sales recognized in accordance with the percentage-of-completion method: determining the percentage of completion
- Measurement of provisions and assessment of the likelihood of their utilization

Some accounting policies require critical estimates that involve complex and subjective assessments and the use of assumptions, some of which are inherently uncertain and subject to change. These critical accounting estimates can vary from period to period and significantly impact a company's financial position and/or earnings. The management explicitly points out that future events will often deviate from planning assumptions, and that it is normal for estimates to have to be adjusted.

Significant estimates and assumptions have to be made in the following areas of accounting:

Revenue recognition over time in the case of long-term projects
Specifically in the case of long-term projects involving customer-specific plant and equipment, revenue is recognized over time using the PoC method if the criteria of IFRS 15.35 are met.

Accurate estimates of the percentage of completion are of vital importance under this method. Depending on the method used to measure the percentage of completion, the most significant estimates concern the total contract cost, the remaining costs to complete the contract, the total contract revenue and contract risks.

The management of operating subsidiaries review all estimates that are needed for revenue recognition over time using the PoC method on an ongoing basis and make adjustments as and when necessary.

Such examinations are part of management's normal accounting activities at operating level. We refer to notes 1 and 14 for details of the carrying amounts.

Trade and other receivables
Determining allowances for doubtful receivables requires significant judgment on the part of management as well as an analysis of the individual debtors that covers their creditworthiness, current and future economic trends and an examination of historic default scenarios. We refer to note 13 for details of the carrying amounts.

Impairment of goodwill
Determining the recoverable amount of a Group Division to which goodwill was allocated involves estimates by management. The value in use is measured based on planning for the first five years, which is based on taking management's expectations and adjusting them for economic trends and historic developments. Estimates of growth, the weighted average cost of capital and tax rates are likewise based on reliable information that reflects the risks associated with operating business in each given industry or division. We refer to note 9 and to the segment reporting for details of the carrying amounts.

Development costs
Development costs are capitalized if the recognition criteria described in IAS 38 are met. Initial capitalization is based on management's estimate that the technical and economic feasibility is

demonstrated; the forecast of the expected future economic benefit to be gained from assets is essential to the decision whether or not costs are to be capitalized. We refer to note 9 for details of the carrying amounts.

Pension obligations

Estimates of pension obligations depend significantly on key assumptions including discount factors, expected salary increases, mortality rates and healthcare trends. The assumptions used to calculate the discount factor reflect the interest rates that can be realized on high-quality fixed-income instruments with appropriate maturities. We refer to note 20 for details of the carrying amounts.

Other provisions

Recognizing provisions for anticipated losses on contracts, warranty-related costs and litigation involves the use of significant estimates. Voith recognizes provisions for anticipated losses in all cases where current estimates of the total contract costs exceed expected contract revenues. Onerous contracts are identified by estimating the total costs of the contract, which requires significant judgment. Estimates are also necessary for assessing obligations from warranties and litigation. Provisions for restructuring are based on detailed plans for expected activities which are reviewed and approved by the Board of Management. We refer to note 21 for details of the carrying amounts.

Taxes

The Voith Group has business operations in many countries and is subject to many different tax laws. Both current and deferred taxes on income must be calculated for each individual taxable entity. To calculate deferred tax assets on tax losses carried forward and temporary differences, for example, assumptions must be made about the possibility of realizing sufficient taxable income in the future and the interpretation of complex tax laws and regulations. We refer to note 8 for details of the carrying amounts.

In the event that it is unlikely that amounts reported in the tax returns can be realized (uncertain tax items), tax liabilities are recognized. The amount is determined from the best possible estimate of the expected tax payment (anticipated value or most probable value of the uncertain tax item). Tax receivables from uncertain tax items are recognized when it is probable that they will materialize. Only where there is a tax loss carried forward or an unused tax credit is no tax liability or tax receivable recognized for these uncertain tax items but instead the deferred tax assets are adjusted for the as yet unused tax losses carried forward and tax credits.

Determining fair values

Within the scope of business combinations, purchase price allocations are subject to not insignificant estimates. The specification of planning values and discount rates should be specifically mentioned in this context. The specification of useful lives is, however, also subject to not inconsiderable assumptions.

Adoption of amended and new standards and interpretations

Changes in accounting and measurement policies due to first-time adoption of revised and new IFRS and IFRIC

The following new and revised IAS and IFRS standards were applied for the first time in the 2020/21 fiscal year:

Standard/interpretation	Amendment/new standard or interpretation
Revised conceptual framework and amendments to the references to the conceptual framework in IFRS standards	This includes revised definitions of assets and liabilities and new guidelines on measurement and derecognition, disclosure and notes.
Amendments to IFRS 3 Business Combinations	“Definition of a Business” The new provisions offer a framework for determining whether a business or a group of assets has been acquired.
Amendments to IFRS 16 Leases	In the wake of the Covid-19 pandemic, lessees were granted rental concessions. The simplification was extended to June 30, 2022.
Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	The amendment standardizes the definition of materiality in the standards themselves and in the conceptual framework. Furthermore, the definition of “material” has been further clarified.
Amendments to IFRS 9, IAS 39 and IFRS 17: Interest Rate Benchmark Reform – Phase 1	The amendments relate in particular to certain simplification options relating to the hedge accounting provisions and are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform. In addition, further disclosures are required on the extent to which the entities’ hedging relationships are impacted by the amendments.

All IAS and IFRS standards applied for the first time had no significant effect on the net assets, financial position and earnings position of the Group.

The adoption of the following revised and newly issued IFRS and IFRIC was not yet mandatory in the 2020/21 fiscal year, and/or they had not yet been endorsed by the European Commission for adoption in the European Union.

Standard/interpretation	Amendment/new standard or interpretation	Mandatory effective date
Amendments to IFRS 3 Business Combinations	The amendment updated an obsolete reference to the conceptual framework without modifying the provisions in the standard in any significant manner.	Periods beginning on or after January 1, 2022
Amendments to IFRS 4 Insurance Contracts	Extension of the period (in line with the amendment to IFRS 17) for the temporary exemption of certain insurance companies from the application of IFRS 9.	Periods beginning on or after January 1, 2021
IFRS 17 Insurance Contracts, including amendments to IFRS 17	IFRS 17 establishes principles for the identification, recognition, measurement, presentation and disclosure in the notes of insurance contracts. The amendments to IFRS 17 primarily included a deferral of the effective date.	Periods beginning on or after January 1, 2023
Amendments to IAS 1 Presentation of Financial Statements	Improve consistency in the classification of liabilities as current or non-current. In particular, the classification of liabilities with uncertain settlement dates is to be regulated.	Periods beginning on or after January 1, 2023
Amendments to IAS 1 Presentation of Financial Statements, Practice Statement 2 and Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Clarification that in future information only has to be provided on "material" and no longer on "significant" accounting policies. Furthermore, the term "accounting estimate" used in IAS 8 has been redefined.	Periods beginning on or after January 1, 2023
Amendments to IAS 12 Income Taxes	The amendments relate to an exemption from the initial recognition exemption in closely specified cases. These lead to a situation where deferred taxes, for instance on leases recognized at the lessee and on decommissioning obligations, must be recognized.	Periods beginning on or after January 1, 2023
Amendments to IAS 16 Property, Plant and Equipment	The amendment governs the handling of any proceeds stemming from the sale of items that are produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended.	Periods beginning on or after January 1, 2022
Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets	The amendment governs which costs an entity must take into account for the fulfilling of a contract when it is assessing whether a contract is onerous.	Periods beginning on or after January 1, 2022
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2	Phase 2 addresses in particular details on classification and measurement of financial instruments and additional aspects of hedge accounting. Other requirements and standards with measurement and provisions requirements were modified.	Periods beginning on or after January 1, 2021
Improvements to IFRS (2018–2020)	Amendments to standards IFRS 1, IFRS 9, IFRS 16 and IAS 41.	Periods beginning on or after January 1, 2022

None of the revised and newly issued IFRS and IFRIC that are subject to mandatory adoptions as of the 2021/22 fiscal year will have any material effect on the net assets, financial position and earnings position of the Voith Group. The impact of revised or newly issued standards and interpretations that will be subject to mandatory adoption by the Voith Group at a later date is currently being investigated.

At present, the Voith Group does not plan to adopt the new or amended standards and interpretations early.

Notes to the consolidated statement of income

01. Sales

in € thousands	2020/21 Over time	2020/21 At a point in time	2020/21 Total	2019/20* Over time	2019/20* At a point in time	2019/20* Total
Voith Hydro	944,846	0	944,846	947,043	0	947,043
Voith Paper	1,073,872	701,788	1,775,660	1,121,565	683,151	1,804,716
	2,018,718	**701,788**	**2,720,506**	**2,068,608**	**683,151**	**2,751,759**

Sales of €1,457,274 thousand (previous year: €1,337,453 thousand) at Voith Turbo and the other sales of €82,570 thousand (previous year adjusted: €83,889 thousand) were mainly recognized at a specific point in time.

Sales of €1,834,060 thousand (previous year: €1,348,396 thousand) are expected in future periods from currently not, or only partially, completed performance obligations.

02. Changes in inventories and other own work capitalized

in € thousands	2020/21	2019/20
Changes in inventories of finished goods and work in progress	71,377	10,529
Other own work capitalized	8,139	5,578
	79,516	**16,107**

* Previous-year figures adjusted as the former Group Division Digital Ventures is now included in “other”.

03. Other operating income

in € thousands	2020/21	2019/20
Income from the use of order-related provisions	128,858	99,723
Income from the reversal of provisions and accruals	52,703	76,080
Foreign exchange gains	64,816	86,458
Recovered bad debts	10,731	20,937
Gains on the disposal of intangible assets and property, plant and equipment	3,102	2,126
Rental and lease income	2,407	2,559
Income from insurance indemnification payments	23,574	33,352
Other income	56,648	56,293
	342,839	**377,528**

04. Cost of materials

in € thousands	2020/21	2019/20
Cost of raw materials and supplies and of purchased merchandise	1,600,050	1,502,479
Cost of purchased services	377,739	325,271
	1,977,789	**1,827,750**

05. Personnel expenses

in € thousands	2020/21	2019/20
Wages and salaries	1,247,368	1,237,143
Social security, pension and other benefit costs	268,635	264,318
	1,516,003	**1,501,461**

On account of the pandemic, personnel cost subsidies of €456 thousand (previous year: €1,397 thousand) were received and recorded as reducing expenses.

The costs of pensions come to €36,942 thousand (previous year: €40,203 thousand).

Number of employees

	Annual average		As at the reporting date	
	2020/21	2019/20	2021-09-30	2020-09-30
Direct employees	10,353	10,177	10,272	10,538
Indirect employees	9,839	10,052	9,646	10,126
	20,192	**20,229**	**19,918**	**20,664**
Apprentices and interns	752	744	752	744
	20,944	**20,973**	**20,670**	**21,408**

Number of employees by region

	Annual average		As at the reporting date	
	2020/21	2019/20	2021-09-30	2020-09-30
Germany	7,494	7,808	7,360	7,713
Europe excluding Germany	4,187	3,503	4,139	4,253
Americas	3,689	3,925	3,622	3,770
Asia	4,661	4,825	4,635	4,764
Other	161	168	162	164
	20,192	**20,229**	**19,918**	**20,664**

06. Other operating expenses

in € thousands	2020/21	2019/20
Increase in provisions and accruals	200,189	244,296
Other selling expenses	226,979	223,100
Other administrative expenses	237,743	245,587
Foreign exchange losses	70,455	102,114
Rental and lease expenses	24,022	19,952
Bad debt allowances	10,567	16,688
Losses on the disposal of intangible assets and property, plant and equipment	3,585	3,302
Other expenses	156,347	153,054
	929,887	**1,008,093**

07. Other financial result

in € thousands	2020/21	2019/20
Gains/losses from investments	55	10,881
Reversal of impairment/impairment of other investments and loans	19,304	1,038
Income from securities and loans	347	380
Currency gains on long-term financing positions	3,170	5,762
Currency losses on long-term financing positions	-4,046	-7,835
Measurement of derivatives used to hedge financial transactions	227	8,874
	19,057	**19,100**

Gains/losses from investments and reversal of impairment/impairment of other investments and loans relate to financial instruments in the “at fair value through profit or loss” (FVTPL) measurement category.

The currency gains and losses on long-term financing positions result from currency gains and losses on long-term intragroup and external loans and liability balances. The measurement effects of derivatives used to hedge financial transactions relate to the hedging instruments associated with these long-term financing positions.

08. Income taxes

in € thousands	2020/21	2019/20
Current taxes	-59,168	-83,660
thereof taxes relating to previous periods	-2,720	-17,539
Deferred taxes	-14,409	23,398
	-73,577	**-60,262**

Current taxes include domestic income taxes and comparable foreign income taxes that are calculated in accordance with the local tax laws valid for each subsidiary.

Deferred taxes are recognized for temporary differences between carrying amounts for tax reporting and carrying amounts recognized under IFRS at the individual Group companies as well as for consolidation measures. Deferred tax assets are also recognized for tax losses carried forward that can be reasonably expected to be realized in the near future. The average income tax rate for German companies is 29.84 % (previous year: 29.84 %).

Deferred taxes are calculated at the tax rates prevailing in the respective countries. The deferred tax expense from temporary differences amounted to €22,981 thousand (previous year: tax income of €20,098 thousand).

The deferred tax income from tax losses carried forward amounted to €8,572 thousand in the 2020/21 fiscal year. This primarily includes an increase in deferred tax assets on tax losses carried forward of €226 thousand as a result of adjustments of tax losses carried forward from the previous year, income of €3,828 thousand from the initial recognition of deferred tax assets on tax losses carried forward, expenses of €2,541 thousand from the utilization of tax losses recognized in the previous year and income of €6,941 thousand from the initial recognition of previously unrecognized tax losses.

The deferred tax income from tax losses carried forward amounted to €3,300 thousand in the 2019/20 fiscal year. This primarily includes the impairment of deferred tax assets of €26,367 thousand which were recognized in the 2018/19 fiscal year, an increase in deferred tax assets on tax losses carried forward of €278 thousand as a result of adjustments of tax losses carried forward from the previous year, income of €28,202 thousand from the initial recognition of deferred tax assets on tax losses carried forward, expenses of €1,651 thousand from the utilization of tax losses recognized in the previous year and income of €2,597 thousand from the initial recognition of previously unrecognized tax losses.

In addition, the current income tax charge was reduced by the use of previously unrecognized deferred tax assets on tax losses carried forward of €4,812 thousand (previous year: €1,400 thousand).

As at September 30, 2021, no deferred tax assets were recognized on German trade tax losses of €968,295 thousand (previous year: €828,421 thousand), German corporate income taxes of €448,896 thousand (previous year: €347,321 thousand) and interest carryforwards under German tax law of €17,715 thousand (previous year: €58,505 thousand) as it is not likely that these tax losses carried forward can be utilized in the near future.

No deferred tax assets were recorded on tax losses carried forward for foreign federal taxes of €176,017 thousand (previous year: €166,322 thousand) or foreign state taxes of €78,698 thousand (previous year: €112,358 thousand) due to the fact that the utilization of the losses is not probable in the near future.

In addition, no deferred tax assets were recognized on temporary differences of €427,642 thousand (previous year: €70,744 thousand) as utilization of the losses is not probable in the near future. The increase results from the non-recognition of deferred taxes as utilization is unlikely in the near future.

In Germany, tax losses carried forward can be carried forward indefinitely. Outside Germany, tax losses can usually be carried forward for a limited period of no more than five to ten years.

	2021-09-30		2020-09-30*	
in € thousands	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	7,949	87,457	8,878	89,278
Property, plant and equipment	3,257	48,446	5,735	35,033
Financial assets and securities	266	2,250	796	1,749
Inventories and receivables	36,360	99,456	41,661	76,543
Other assets	7,979	26,575	11,072	20,807
Pension provisions	18,894	1,343	138,467	1,372
Financial liabilities	40,895	5,770	6,770	3,845
Other provisions and liabilities	160,823	22,909	136,848	6,646
Tax effect on distributable earnings of Group companies		5,491		5,480
Tax losses carried forward	62,167		53,076	
Netting	-246,180	-246,180	-158,529	-158,529
	92,410	**53,517**	**244,774**	**82,224**

For details of the origin of deferred taxes on items recorded directly in equity, please refer to note 19.

Reconciliation of deferred tax assets and liabilities:

in € thousands	2020/21	2019/20
Balance, October 1	**162,550**	**173,777**
thereof: deferred tax assets	244,774	218,732
thereof: deferred tax liabilities	-82,224	-44,955
Deferred tax income/(expense) reported in the statement of income in the reporting period	-14,409	23,398
Deferred tax income/(expense) reported in other comprehensive income in the reporting period	-112,344	-1,428
Business acquisitions and disposals	0	-30,047
Currency	3,096	-3,150
Balance, September 30	**38,893**	**162,550**
thereof: deferred tax assets	92,410	244,774
thereof: deferred tax liabilities	-53,517	-82,224

* Previous-year figures were adjusted to the changed structure.

Reconciliation of expected and effective tax expense:

The income of Voith GmbH & Co. KGaA and its subsidiaries in Germany is subject to corporate income tax and trade tax as well as the solidarity surcharge. Profits earned outside Germany are taxed at the prevailing rates in the countries concerned. The expected tax expense was calculated based on a tax rate of 29.84% (previous year: 29.84%) that takes into account the legal structure of the Voith Group relevant for tax purposes.

in € thousands	2020/21	2019/20*
Result before income taxes	80,094	73,169
Expected tax expense (+)/tax income (-)	23,900	21,834
Deviations from expected tax rates	-11,271	-9,176
Effect of changes in tax rates	-141	-548
Tax-free income	-11,643	-10,398
Non-deductible expenses	20,432	23,470
Taxes relating to other periods	3,853	-851
Change in impairments of deferred tax assets	49,100	35,875
Other tax effects	-653	56
Income taxes	**73,577**	**60,262**
Effective tax rate (in %)	**91.9**	**82.4**

The non-deductible expenses contain withholding taxes of €11,886 thousand (previous year: €19,550 thousand).

No deferred tax liabilities were recorded on temporary differences in connection with investments in subsidiaries of €34,244 thousand (previous year adjusted presentation of the measurement base instead of the difference: €39,379 thousand), as the criteria specified in IAS 12.39 were met.

When distributions by foreign subsidiaries are made in Germany, 5% of the distribution is subject to German taxation. In addition, withholding taxes and dividend-related taxes abroad may also be incurred. Further income tax implications must also be observed in the case of distributions from subsidiaries abroad to another foreign company.

* Previous year restated.

Notes to the consolidated balance sheet

09. Intangible assets

Development of intangible assets from 2020-10-01 to 2021-09-30

in € thousands	Franchises, industrial rights and similar rights and assets as well as licenses in such rights and assets	Goodwill	Development costs	Prepayments	Total
Cost 2020-10-01	**386,425**	**805,630**	**163,431**	**33**	**1,355,519**
Business combinations	0	0	0	0	0
Currency translation differences	1,595	2,451	123	0	4,169
Additions	10,189	0	6,030	8	16,227
Disposals	-3,059	0	0	0	-3,059
Other adjustments	0	0	-2	0	-2
Transfers	309	0	0	-41	268
Cost 2021-09-30	**395,459**	**808,081**	**169,582**	**0**	**1,373,122**
Accumulated amortization and impairment 2020-10-01	**-190,255**	**-54,179**	**-124,280**	**0**	**-368,714**
Currency translation differences	-695	0	-53	0	-748
Amortization	-23,257	0	-8,028	0	-31,285
Impairment losses	-138	0	0	0	-138
Disposals	2,986	0	0	0	2,986
Transfers	0	0	0	0	0
Other adjustments	1	0	0	0	1
Accumulated amortization and impairment 2021-09-30	**-211,358**	**-54,179**	**-132,361**	**0**	**-397,898**
Carrying amounts 2021-09-30	**184,101**	**753,902**	**37,221**	**0**	**975,224**

Development of intangible assets from 2019-10-01 to 2020-09-30

in € thousands	Franchises, industrial rights and similar rights and assets as well as licenses in such rights and assets	Goodwill	Development costs	Prepayments	Total
Cost 2019-10-01	**215,786**	**508,409**	**153,381**	**0**	**877,576**
Business combinations	169,672	297,132	0	0	466,804
Currency translation differences	-2,789	89	32	0	-2,668
Additions	5,014	0	10,025	33	15,072
Disposals	-2,089	0	0	0	-2,089
Other adjustments	19	0	-7	0	12
Transfers	812	0	0	0	812
Cost 2020-09-30	**386,425**	**805,630**	**163,431**	**33**	**1,355,519**
Accumulated amortization and impairment 2019-10-01	**-173,411**	**-54,179**	**-117,173**	**0**	**-344,763**
Currency translation differences	2,720	0	-12	0	2,708
Amortization	-21,543	0	-6,423	0	-27,966
Impairment losses	-77	0	-672	0	-749
Disposals	2,062	0	0	0	2,062
Transfers	-32	0	0	0	-32
Other adjustments	26	0	0	0	26
Accumulated amortization and impairment 2020-09-30	**-190,255**	**-54,179**	**-124,280**	**0**	**-368,714**
Carrying amounts 2020-09-30	**196,170**	**751,451**	**39,151**	**33**	**986,805**

10. Property, plant and equipment

Development of property, plant and equipment from 2020-10-01 to 2021-09-30

in € thousands	Land and buildings, including buildings on third-party land	Plant and machinery	Other equipment, furniture and fixtures	Prepayments and assets under construction	Rights of use	Total
Cost 2020-10-01	**830,210**	**1,463,158**	**525,169**	**43,408**	**147,566**	**3,009,511**
Business combinations	0	0	0	0	0	0
Currency translation differences	15,182	28,186	4,488	557	1,182	49,595
Additions	5,053	26,642	22,631	35,595	14,826	104,747
Capitalized interest	0	0	0	116	0	116
Remeasurements	0	0	0	0	7,936	7,936
Disposals	-2,011	-28,020	-23,993	-2,427	-5,831	-62,282
Transfers	14,533	19,123	5,840	-27,798	-11,966	-268
Reclassification to assets held for sale	0	0	0	0	0	0
Reclassification of former finance leases	0	0	0	0	0	0
Other adjustments	-12	-14	-27	-74	2,250	2,123
Cost 2021-09-30	**862,955**	**1,509,075**	**534,108**	**49,377**	**155,963**	**3,111,478**
Accumulated depreciation and impairment 2020-10-01	**-393,294**	**-1,135,875**	**-422,506**	**-240**	**-29,531**	**-1,981,446**
Currency translation differences	-5,094	-19,971	-3,495	0	-709	-29,269
Depreciation	-18,708	-54,561	-31,986	0	-31,928	-137,183
Impairment losses	-100	-390	-294	0	-473	-1,257
Remeasurements	0	0	0	0	0	0
Disposals	1,279	26,980	23,538	0	5,606	57,403
Transfers	-513	-29	23		519	0
Reclassification to assets held for sale	0	0	0	0	0	0
Reclassification of former finance leases	0	0	0	0	0	0
Reversal of impairment losses	0	0	0	0	0	0
Other adjustments	0	0	46	0	0	46
Accumulated depreciation and impairment 2021-09-30	**-416,430**	**-1,183,846**	**-434,674**	**-240**	**-56,516**	**-2,091,706**
Carrying amounts 2021-09-30	**446,525**	**325,229**	**99,434**	**49,137**	**99,447**	**1,019,772**

The Voith Group exercised the call option for the leased property in Mergelstetten effective as at March 31, 2021. In the statement of changes in fixed assets, this transaction is disclosed in the transfers between right of use and land and buildings, including buildings on third-party land.

Development of property, plant and equipment from 2019-10-01 to 2020-09-30

in € thousands	Land and buildings, including buildings on third-party land	Plant and machinery	Other equipment, furniture and fixtures	Prepayments and assets under construction	Rights of use	Total
Cost 2019-10-01	**834,624**	**1,444,193**	**512,478**	**37,455**	**0**	**2,828,750**
First-time application of IFRS 16	0	0	0	0	87,227	87,227
Business combinations	23,148	26,075	3,328	1,403	28,029	81,983
Currency translation differences	-28,051	-61,551	-10,249	-1,902	-2,699	-104,452
Additions	2,879	24,016	25,681	28,156	34,983	115,715
Capitalized interest	0	0	0	129	0	129
Remeasurements	0	0	0	0	-1,079	-1,079
Disposals	-1,534	-12,869	-14,065	-2,004	-94	-30,566
Transfers	1,468	16,539	708	-19,528	0	-813
Reclassification to assets held for sale	849	29,692	8,950	90	-1,399	38,182
Reclassification of former finance leases	-2,598	0	0	0	2,598	0
Other adjustments	-575	-2,937	-1,662	-391	0	-5,565
Cost 2020-09-30	**830,210**	**1,463,158**	**525,169**	**43,408**	**147,566**	**3,009,511**
Accumulated depreciation and impairment 2019-10-01	**-387,118**	**-1,111,566**	**-406,234**	**0**	**0**	**-1,904,918**
Currency translation differences	11,553	45,587	8,235	0	513	65,888
Depreciation	-18,537	-56,677	-31,665	-240	-28,865	-135,984
Impairment losses	-613	-1,473	-795	0	-306	-3,187
Remeasurements	0	0	0	0	0	0
Disposals	879	9,918	13,346	0	0	24,143
Transfers	0	-687	719	0	0	32
Reclassification to assets held for sale	-658	-24,167	-7,884	0	0	-32,709
Reclassification of former finance leases	745	0	0	0	-745	0
Reversal of impairment losses	0	0	26	0	0	26
Other adjustments	455	3,190	1,746	0	-128	5,263
Accumulated depreciation and impairment 2020-09-30	**-393,294**	**-1,135,875**	**-422,506**	**-240**	**-29,531**	**-1,981,446**
Carrying amounts 2020-09-30	**436,916**	**327,283**	**102,663**	**43,168**	**118,035**	**1,028,065**

The impairment losses are included in the consolidated statement of income item “Depreciation and amortization”.

An interest rate of 1.3% was used to calculate capitalized interest (previous year: 1.1%).

The prepayments and assets under construction include buildings of €5,604 thousand (previous year: €3,316 thousand), plant and machinery of €41,245 thousand (previous year: €37,216 thousand) and non-production-related equipment of €2,286 thousand (previous year: €2,635 thousand).

As at September 30, 2021, the carrying amounts of the rights of use under leases contained land and buildings of €71,209 thousand (previous year: €89,478 thousand), plant and machinery of €485 thousand (previous year: €819 thousand), leased vehicles of €15,296 thousand (previous year: €13,681 thousand) and other of €12,457 thousand (previous year: €14,057 thousand).

The depreciation on the rights of use under leases break down as follows: €18,705 thousand (previous year: €16,715 thousand) on land and buildings, €394 thousand (previous year: €826 thousand) on plant and machinery, €10,648 thousand (previous year: €9,576 thousand) on leased vehicles and €2,181 thousand (previous year: €1,748 thousand) on other.

11. Investments accounted for using the equity method

Associates

The following table summarizes the financial information for associates; all amounts relate to the Group’s proportionate share of the respective associates:

in € thousands	2021-09-30	2020-09-30
Carrying amount of the investments in associates	44,180	16,646
Share of:		
Net result of continuing operations	-5,984	-7,366
Other comprehensive income	684	0
Total comprehensive income	**-5,300**	**-7,366**

The increase in the carrying amount of the shares in associates was mainly due to the acquisition of 37% of the shares in Traktionssysteme Austria GmbH in the Voith Turbo segment.

The net result of continuing operations includes income from associates of €1,425 thousand (previous year: €26 thousand) and expenses of €7,409 thousand (previous year: €7,392 thousand).

Joint ventures

The Group has interests in joint ventures which are not individually material. The following table summarizes the financial information for these joint ventures; all amounts relate to the Group's proportionate share of the respective joint ventures:

in € thousands	2021-09-30	2020-09-30
Carrying amount of the interests in joint ventures	4,578	4,576
Share of:		
Net result of continuing operations	-843	-433
Other comprehensive income	-8	-181
Total comprehensive income	**-851**	**-614**

In some cases, the companies accounted for using the equity method have reporting periods which do not end on September 30, as the reporting dates are aligned to those of the controlling shareholder. Accordingly, some companies prepare interim financial statements as at September 30. For other companies the effects of the different reporting periods are not significant for the Voith Group's earnings position and net assets.

12. Inventories

in € thousands	2021-09-30	2020-09-30
Raw materials and supplies	264,660	242,727
Work in progress	184,780	136,559
Finished goods and merchandise	136,871	141,041
Prepayments	95,133	71,585
	681,444	**591,912**

Write-downs of inventories recognized as expenses amounted to €9,432 thousand (previous year: €14,674 thousand). Obligatory reversals of write-downs totaling €9,451 thousand (previous year: €5,133 thousand) were made. These amounts are recognized in the cost of materials.

13. Trade receivables

Trade receivables consist of the following items:

in € thousands	2021-09-30	2020-09-30
Trade receivables	777,931	720,374
Bad debt allowances	-33,791	-45,577
	744,140	**674,797**

Trade receivables are classified as current assets. As at September 30, 2021, the volume of receivables that is not expected to be realized within one year is €8,053 thousand (previous year: €10,541 thousand).

Movements in the allowance account for the impairment of trade receivables were as follows:

in € thousands	2021-09-30	2020-09-30
Impairment at the beginning of the fiscal year	**-45,577**	**-52,306**
Additions	-10,266	-16,586
Utilization	10,295	2,834
Reversal	10,415	20,666
Changes in consolidated group/exchange differences	-1,334	548
Reclassification to assets held for sale	0	0
Expected credit losses	2,676	-733
Impairment at the end of the fiscal year	**-33,791**	**-45,577**

The total reversal of €10,415 thousand (previous year: €20,666 thousand) is comprised exclusively of reversals of specific bad debt allowances, as was the case in the previous year. Additions of €10,266 thousand (previous year: €16,586 thousand) consist of additions to specific bad debt allowances of €10,160 thousand (previous year: €15,223 thousand) and of expected credit losses of €106 thousand (previous year: €1,363 thousand).

14. Contract assets and contract liabilities

Notes on material changes in contract assets and contract liabilities:

in € thousands	2021-09-30	2020-09-30
Contract assets at the beginning of the fiscal year	**539,446**	**541,204**
Exchange rate differences	12,944	-47,344
Business combinations	0	23,200
Change as a result of project progress, taking account of customer payments received	389,433	216,040
Reclassification from contract assets to trade receivables	-408,058	-266,203
Impairments	540	657
Other changes	39,647	71,892
Contract assets at the end of the fiscal year	**573,952**	**539,446**
Contract liabilities at the beginning of the fiscal year	**845,256**	**816,919**
Exchange rate differences	19,674	-28,844
Business combinations	0	28,147
Sales included in contract liabilities at the beginning of the period	-198,426	-197,204
Increase as a result of customer payments received less figure recognized as sales over the period	346,767	258,250
Other changes	-74,412	-32,012
Contract liabilities at the end of the fiscal year	**938,859**	**845,256**

15. Other financial receivables and other assets

Other financial receivables

in € thousands	Current	Non-current	2021-09-30	Current	Non-current	2020-09-30
Derivatives used to hedge operational transactions	21,126	12,357	33,483	10,232	4,014	14,246
Derivatives used to hedge financial transactions	101	0	101	131	24	155
Financial receivables	20,657	1,405	22,062	18,113	332	18,445
Sundry financial assets[1]	53,243	34,151	87,394	91,437	37,287	128,724
	95,127	**47,913**	**143,040**	**119,913**	**41,657**	**161,570**

Other assets

in € thousands	Current	Non-current	2021-09-30	Current	Non-current	2020-09-30
Prepaid expenses	30,529	7,174	37,703	40,145	7,528	47,673
Other taxes (without income taxes)	108,325	11,370	119,695	106,674	6,925	113,599
	138,854	**18,544**	**157,398**	**146,819**	**14,453**	**161,272**

16. Securities

Current securities of €51,337 thousand (previous year: €122,693 thousand) do not contain any (previous year: €50 million) term deposits of Voith GmbH & Co. KGaA or of subsidiaries.

Further information on securities can be found in the section “Additional information on financial instruments”.

[1] Includes assets totaling €19,943 thousand (previous year: €19,093 thousand) which are not financial instruments and which are accordingly excluded from the disclosures made in the section “Additional information on financial instruments”.

17. Cash and cash equivalents

in € thousands	2021-09-30	2020-09-30
Cash on hand	127	134
Cash equivalents	2,271	2,545
Cash at bank	508,767	579,087
	511,165	**581,766**

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months, depending on the cash requirements of the Group. These deposits earn interest at the respective short-term deposit rates.

18. Assets held for sale and liabilities directly associated with assets classified as held for sale

The assets held for sale of €12,503 thousand (previous year: €6,024 thousand) relate to investments of €12,500 thousand (previous year: €0) and intangible assets and property, plant and equipment of €3 thousand (previous year: €5,233 thousand). In the previous year, there were in addition inventories of €119 thousand, trade receivables of €643 thousand and other assets of €29 thousand that were disclosed as held for sale. Liabilities directly associated with the assets held for sale of €1,508 thousand were disclosed in the previous year.

19. Equity

Issued capital

The share capital of Voith GmbH & Co. KGaA of €120,000 thousand comprises 108,000 thousand ordinary shares with a nominal value of €1.00 each and 12,000 thousand preference shares with a nominal value of €1.00 each.

Revenue reserves and other reserves

The revenue reserves and other reserves consist of retained earnings generated by Voith GmbH & Co. KGaA and its consolidated subsidiaries as well as the effects of the remeasurement of defined benefit plans, the currency translation of foreign subsidiaries, the valuation of net investments in foreign operations, gains/losses on available-for-sale investments and financial assets recognized directly in equity without effect on profit or loss and cash flow hedges pursuant to IAS 39.

The statement of comprehensive income shows the individual components of other comprehensive income. Other comprehensive income consists of:

in € thousands	2020/21	2019/20
Remeasurement of defined benefit plans	**25,068**	**21,082**
· Gains/losses in the current period	25,068	21,082
Gains/losses on the valuation of financial assets and marketable securities	**423**	**-4,614**
· Gains/losses in the current period	423	-4,614
· Transfers to profit and loss	0	0
Gains/losses on cash flow hedges	**-570**	**888**
· Gains/losses in the current period	-500	124
· Transfers to profit and loss	-70	764
Gains/losses on currency translation	**39,503**	**-82,344**
· Gains/losses in the current period	39,503	-82,344
· Transfers to profit and loss	0	0
Gains/losses from the currency translation of net investments in foreign operations	**4,828**	**-35,908**
· Gains/losses in the current period	4,828	-35,908
· Transfers to profit and loss	0	0
Tax on components of other comprehensive income	**-112,344**	**-1,428**
Other comprehensive income	**-43,092**	**-102,324**

Deferred taxes on the components of other comprehensive income are as follows:

	2020/21			2019/20		
in € thousands	Before taxes	Deferred taxes	After taxes	Before taxes	Deferred taxes	After taxes
Remeasurement of defined benefit plans	25,068	-111,891 [1)]	-86,823	21,082	-6,152	14,930
Gains/losses on the valuation of financial assets and marketable securities	423	-307	116	-4,614	1,377	-3,237
Gains/losses on cash flow hedges	-570	146	-424	888	-21	867
Gains/losses on currency translation	39,503	0	39,503	-82,344	0	-82,344
Gains/losses from the currency translation of net investments in foreign operations	4,828	-292	4,536	-35,908	3,368	-32,540
Other comprehensive income	**69,252**	**-112,344**	**-43,092**	**-100,896**	**-1,428**	**-102,324**

Profit participation rights

Profit participation rights with a nominal volume of €103,400 thousand (previous year: €103,400 thousand) qualify as Group equity under the IAS 32 criteria. The rights are lower-ranking bearer profit participation rights with variable compensation, no fixed maturity date and no right of termination on the part of the creditors. Profit participation rights of €96,800 thousand were issued by a subsidiary of Voith GmbH & Co. KGaA. Profit participation rights of €6,600 thousand were issued by Voith GmbH & Co. KGaA. Subject to the approval of the appropriate governing body, profits totaling €5,590 thousand (previous year: €5,590 thousand) are scheduled to be distributed on the sum total of these rights for the 2020/21 fiscal year.

Non-controlling interests

The majority of non-controlling interests are held by the co-owners of the subsidiaries Shanghai CRRC Voith Transmission Technology Co., Ltd., China, Rif Roll Cover Srl, Italy, Voith Fuji Hydro K.K., Japan, Voith IHI Paper Technology Co., Ltd., Japan, Voith Hydro Shanghai Ltd., China and Voith Paper Fabrics India Ltd., India. Of the profit participation rights totaling €103,400 thousand, €96,800 thousand is attributable to non-controlling interests.

Appropriation of retained earnings at Voith GmbH & Co. KGaA

The Board of Management proposes to pay a dividend of €0.17 per share (€20,000 thousand in total) out of the unappropriated retained earnings of Voith GmbH & Co. KGaA and to carry forward the remaining amount. Of the total dividends proposed, €2,000 thousand is attributable to preference shares. Dividend payments in the fiscal year amounted to €20,000 thousand (previous year: €20,000 thousand). The distribution per share in the fiscal year amounted to €0.17 per share (previous year: €0.17 per share). In addition, a retrospective payment of capital gains tax on distributions from previous years of €27,226 thousand (€0.23 per share) was made in the previous year.

[1)] Includes the effect of the impairment of deferred tax assets arising on pension revaluations that were previously recorded in other comprehensive income.

Additional disclosures on capital management

Voith is a family-owned company. As such, it is obliged to maintain a robust and sustainable financial profile that enables the Group to meet its earnings and growth targets.

Voith manages its capital with the aim of maximizing the return on capital. The Group's managed capital consists of equity and interest-bearing financial liabilities.

in € thousands	2021-09-30	2020-09-30
Equity	1,014,777	1,083,469
Interest-bearing financial liabilities	787,609	908,047
	1,802,386	**1,991,516**

Equity fell by 6.3% compared to the previous year. The main contribution to this development came from the negative effects from the write-down of the deferred tax assets on pension obligations. Interest-bearing financial liabilities decreased by 13.3%. The composition of interest-bearing financial liabilities is described in note 22.

The articles of incorporation and bylaws of Voith GmbH & Co. KGaA do not prescribe any specific capital requirements.

20. Provisions for pensions and similar obligations

Provisions for pensions are recognized for benefit obligations in the form of retirement, invalidity and surviving dependents' benefits payable under pension plans. The benefits provided by the Group vary according to local legal, tax and economic conditions in the respective countries and are usually based on the length of employee service and the level of remuneration.

The Group's post-employment benefits include both defined benefit plans and defined contribution plans. In the case of defined contribution plans, the Company pays contributions to state or private pension schemes based on either legal or contractual requirements or on a voluntary basis. Once the contributions have been paid, there are no further obligations for the Company. Current contributions are recognized as pension expenses in the period concerned and total €105,307 thousand for the Voith Group as a whole (previous year: €98,958 thousand).

The majority of the pension plans are defined benefit plans that take the form of provisions-based or externally funded schemes.

The pension provisions for defined benefit plans are determined in accordance with IAS 19 using the internationally recognized projected unit credit method. For this purpose, the future obligations are measured on the basis of the pro rata employee benefit obligations earned at the end of the fiscal year. Pension provisions are measured taking into account development assumptions for those factors which affect the benefit amount. All defined benefit plans require actuarial valuations. These are prepared annually by qualified actuaries.

The amount of the individual benefit payments is generally measured based on the wage or salary level and/or position in the corporate hierarchy, as well as the length of service. The features and related risks of the defined benefit plans available to employees vary according to local legal, tax and economic conditions in the respective countries. The features of the material defined benefit plans at Voith are described below.

a) Pension plans in Germany and Austria
The pension plans in Germany generally include retirement, invalidity and surviving dependents' benefits. Traditionally, the pension commitments are measured on the beneficiary's final salary. In recent years, these benefits have been increasingly replaced by capital savings models. Under capital savings models, the amount of the benefit is measured as the sum of the (annual) savings modules. The individual modules are measured from the defined salary-based contribution using a variable conversion factor for age and interest rates for a defined retirement age.

Numerous Group companies have introduced capital savings models to satisfy their obligation to pay an employer contribution.

In accordance with the German Company Pensions Act, current benefit payments are regularly reviewed with regard to the increase in the consumer price index.

In contrast to the older final-salary-based pension commitments, which involve a relatively high risk of extra funding requirements arising from salary trends, from external input parameters (e.g. the income threshold for the statutory pension insurance scheme) and from the adjustment of current pensions, the current capital savings models ultimately only involve the risk of a change in the interest rates used in the calculation.

Pension provisions are recognized for all pension commitments. Funding is therefore only obtained in exceptional cases. The plan assets of German companies take the form of insurance policies. They do not include any financial instruments issued by companies of the Voith Group.

For mortality and invalidity, the RT 2018G mortality tables by Heubeck are used. Employee turnover probabilities were calculated specifically for the Group.

In Austria, the obligations result primarily from a severance benefit scheme ("Abfertigungen"). Benefits become due upon termination of the employment relationship (provided the employee is not culpable for the termination), i.e. also upon retirement. Austrian severance benefits all qualify as capital savings. A few years ago, the nature of these benefits changed for new hires to post-employment benefits on account of new statutory requirements. These qualify as defined contribution plans and are organized via legally independent employee welfare funds. The employer's obligation is limited to payment of the contribution. In addition, obligations exist for retirement, invalidity and surviving dependents' benefits on the basis of individual commitments and a pension plan, which closed to new hires a long time ago, at the St. Pölten location.

b) Pension plans in the United States and Canada
The companies of the Voith Group in the USA have four defined benefit plans. The plans are closed to new entrants, who are offered defined contribution plans instead. All of the pension plans are frozen. No new participants are accepted and no further provisions will be recognized for future benefit payments or future service cost (apart from a small group of participants in a plan for whom only cost of living increases are still considered in the calculation of the final average benefit payment). The pensions are primarily based on the final average salary or the length of service (i.e. the product of a fixed dollar amount and the number of years of service) and are paid monthly for life. Finally, there is a plan for post-employment medical benefits for a group of plan participants who met the age and length of service criteria when the plan was closed to new participants. This plan is unfunded. These defined benefit plans give rise to actuarial risks for the Voith Group in the USA, arising from such factors as the investment risk, interest rate risk, longevity risk and the risk of a rise in the costs of medical care.

The plan assets for defined benefit plans are invested in a master trust. Voith US Inc. and Voith Hydro Inc. have assigned the responsibility for overseeing the investment of plan assets to an investment committee. According to a trust agreement and US law, the members of the investment committee have a fiduciary duty to act solely in the best interests of the beneficiaries. The committee has drawn up an investment guideline that lays down the investment goals and procedures that must be followed. The trustee of the master trust only acts on the express instructions of the investment committee or an authorized representative of the investment committee. The trustee is responsible for the safe custody of the plan assets, but is not generally empowered with decision-making authority.

The legal and regulatory framework for calculating the minimum funding requirement for the pension plans is based on the relevant US laws, including the Employee Retirement Income Security Act (ERISA) as amended. An annual assessment of the minimum funding requirement is made by the plan's actuary on the basis of these laws. If the employer's contribution exceeds the minimum funding requirement or if the plan assets exceed the liabilities, the surplus may be offset against future minimum funding requirements.

The Voith Group maintains two active defined benefit plans in Canada. Both plans are closed to new entrants, who participate in various defined contribution plans instead. The benefits paid under both of these plans take the form of lifelong monthly pensions.

The plan assets of the defined benefit plans are invested by an Outsourced Investment Management team who manage the plan assets as trustee. The Group companies paying the contributions have assigned the responsibility for overseeing the investment of plan assets to an investment committee. According to Canadian law at both federal and provincial level, the Company and its representatives have a fiduciary duty as the managers of the plan assets to act solely in the best interests of the beneficiaries.

The legal and regulatory framework used to calculate the minimum funding requirement for pension plans is based on the relevant laws applicable in the Province of Ontario and at federal level in Canada, including the Ontario Pension Benefits Act and the Ontario Income Tax Act as well as the associated laws and regulations as amended. Based on these laws, either an annual or a three-yearly assessment of the minimum funding requirement is made by the plan's actuary.

The following amounts were recorded in the consolidated financial statements for post-employment defined benefit pension plans:

	Defined benefit obligation		Fair value of plan assets		Net carrying amount from defined benefit plans	
in € thousands	2021-09-30	2020-09-30	2021-09-30	2020-09-30	2021-09-30	2020-09-30
Germany and Austria	814,807	836,250	-25,003	-24,693	789,804	811,557
USA and Canada	171,964	181,506	-158,335	-165,036	13,629	16,470
Other	81,338	80,132	-52,062	-49,522	29,276	30,610
	1,068,109	**1,097,888**	**-235,400**	**-239,251**	**832,709**	**858,637**

Movements in the net liability from defined benefit plans:

in € thousands	2021-09-30 Present value of defined benefit obligations	2021-09-30 Fair value of plan assets	2021-09-30 Total	2020-09-30 Present value of defined benefit obligations	2020-09-30 Fair value of plan assets	2020-09-30 Total
Balance, October 1	**1,097,888**	**-239,251**	**858,637**	**1,085,464**	**-217,916**	**867,548**
Current service cost	16,612	-	16,612	19,747	-	19,747
Past service cost from plan curtailments (income)	-900	0	-900	-620	0	-620
Interest expenses (+)/interest income (-)	14,256	-4,253	10,003	14,044	-4,848	9,196
Remeasurements:						
Losses (+)/gains (-) from changes in demographic assumptions	-4,361	-	-4,361	3,348	-	3,348
Losses (+)/gains (-) from changes in financial assumptions	-27,265	-	-27,265	-9,340	-	-9,340
Losses (+)/gains (-) from experience adjustments	5,018	-	5,018	-1,365	-	-1,365
Remeasurement of plan assets (without amounts included in interest result)	-	3,778	3,778	-	-14,142	-14,142
Employer contributions to the fund	-	-3,788	-3,788	-	-4,012	-4,012
Employee contributions to the fund	-	-1,318	-1,318	-	-1,117	-1,117
Benefits paid	-44,797	13,603	-31,194	-46,120	14,914	-31,206
Change to the Group's structure	-184	131	-53	53,208	-29,822	23,386
Other	2,742	-506	2,236	-5,694	5,176	-518
Currency translation differences on foreign plans	4,520	-3,796	724	-15,013	12,516	-2,497
Addition to termination benefits in accordance with IAS 19.159 et seq.	4,580	-	4,580	229	-	229
Balance, September 30	**1,068,109**	**-235,400**	**832,709**	**1,097,888**	**-239,251**	**858,637**

Movements in the net liability from defined benefit plans:

Germany and Austria

in € thousands	2021-09-30 Present value of defined benefit obligations	2021-09-30 Fair value of plan assets	2021-09-30 Total	2020-09-30 Present value of defined benefit obligations	2020-09-30 Fair value of plan assets	2020-09-30 Total
Balance, October 1	**836,250**	**-24,693**	**811,557**	**856,772**	**-24,398**	**832,374**
Current service cost	12,943	-	12,943	16,282	-	16,282
Past service cost from plan curtailments (income)	-39	0	-39	-58	0	-58
Interest expenses (+) / interest income (-)	9,590	-288	9,302	8,390	-241	8,149
Remeasurements:						
Losses (+) / gains (-) from changes in demographic assumptions	0	-	0	6,449	-	6,449
Losses (+) / gains (-) from changes in financial assumptions	-20,773	-	-20,773	-23,323	-	-23,323
Losses (+) / gains (-) from experience adjustments	3,945	-	3,945	-38	-	-38
Remeasurement of plan assets (without amounts included in interest result)	-	-634	-634	-	-663	-663
Employer contributions to the fund	-	0	0	-	-732	-732
Employee contributions to the fund	-	0	0	-	0	0
Benefits paid	-31,748	1,344	-30,404	-31,883	1,341	-30,542
Change to the Group's structure	-184	0	-184	4,592	0	4,592
Other	243	-732	-489	-1,162	0	-1,162
Currency translation differences on foreign plans	0	0	0	0	0	0
Addition to termination benefits in accordance with IAS 19.159 et seq.	4,580	0	4,580	229	0	229
Balance, September 30	**814,807**	**-25,003**	**789,804**	**836,250**	**-24,693**	**811,557**

USA and Canada

in € thousands	2021-09-30 Present value of defined benefit obligations	2021-09-30 Fair value of plan assets	2021-09-30 Total	2020-09-30 Present value of defined benefit obligations	2020-09-30 Fair value of plan assets	2020-09-30 Total
Balance, October 1	**181,506**	**-165,036**	**16,470**	**192,787**	**-169,577**	**23,210**
Current service cost	492	-	492	639	-	639
Past service cost from plan curtailments	0	0	0	0	0	0
Interest expenses (+)/interest income (-)	3,949	-3,575	374	4,810	-4,149	661
Remeasurements:						
Losses (+)/gains (-) from changes in demographic assumptions	-1,592	-	-1,592	-3,069	-	-3,069
Losses (+)/gains (-) from changes in financial assumptions	-5,106	-	-5,106	13,453	-	13,453
Losses (+)/gains (-) from experience adjustments	1,281	-	1,281	-158	-	-158
Remeasurement of plan assets (without amounts included in interest result)	-	3,443	3,443	-	-14,925	-14,925
Employer contributions to the fund	-	-1,972	-1,972	-	-1,347	-1,347
Employee contributions to the fund	-	29	29	-	14	14
Benefits paid	-11,420	11,420	0	-12,506	12,506	0
Other	-734	235	-499	-420	424	4
Currency translation differences on foreign plans	3,588	-2,879	709	-14,030	12,018	-2,012
Balance, September 30	**171,964**	**-158,335**	**13,629**	**181,506**	**-165,036**	**16,470**

Costs for defined benefit plans break down as follows:

in € thousands	2021-09-30	2020-09-30
Current service cost	16,612	19,747
Past service cost	-900	-620
Interest expenses from pension obligations and plan assets	10,003	9,196

Current service cost and past service cost are stated under personnel expenses. Interest expenses on the obligation and interest income on plan assets are stated in the interest result. Past service cost includes the effects of the increase in the actuarial interest rate for the capital savings plans.

The plan assets consist of the following components:

in € thousands	Quoted prices in an active market 2021-09-30	Quoted prices in an active market 2020-09-30	No quoted prices in an active market 2021-09-30	No quoted prices in an active market 2020-09-30	Total 2021-09-30	Total 2020-09-30
Equity instruments	5,776	9,150	0	0	5,776	9,150
Debt instruments	149,449	148,207	0	923	149,449	149,130
Real estate	1,025	2,375	0	0	1,025	2,375
Cash and cash equivalents	2,829	5,304	0	154	2,829	5,458
Other[1]	5,783	429	70,538	72,709	76,321	73,138
	164,862	**165,465**	**70,538**	**73,786**	**235,400**	**239,251**

The calculation of pension provisions was based on the following assumptions:

in %	Germany and Austria 2021-09-30	Germany and Austria 2020-09-30	USA 2021-09-30	USA 2020-09-30
Discount rate	1.35	1.18	2.44	2.13
Pension increases	1.60	1.60	0	0

The inputs used in the calculation of the defined benefit obligation (DBO) include assumed discount rates, wage and salary trends, as well as mortality rates. These vary depending on the state of the economy and other factors in the respective country.

The method for determining the discount rate for the German and Austrian pension obligations were modified in the past fiscal year. This involved changing accounting estimates as specified in IAS 8.39. The method used in the previous year would give rise to the same rounded discount rate of 1.35%.

Changes to the relevant actuarial assumptions would have had the following impact on the defined benefit obligation:

		2021-09-30 in € thousands	2021-09-30 in %	2020-09-30 in € thousands	2020-09-30 in %
Discount rate	up 0.50% points	-75,177	-7.0	-77,057	-7.0
	down 0.50% points	85,153	8.0	87,189	7.9
Pension increases	up 0.25% points	17,746	1.7	17,897	1.6
	down 0.25% points	-16,944	-1.6	-17,095	-1.6
Life expectancy	+ 1 year	35,331	3.3	35,936	3.3

[1] Primarily employer's pension liability insurance.

The sensitivity analyses presented here show the effect of changes to one assumption with no change in the other assumptions, i.e. possible correlations between the individual assumptions are not considered.

The fluctuations in the discount rate, the pension increases, the wage and salary trends and the mortality rates do not have the same impact in absolute terms on the defined benefit obligation (DBO), primarily on account of discounting the obligation to net present value. If a number of assumptions are changed simultaneously, the total impact does not necessarily equate to the sum of the effects attributable to the individual assumptions changed. In addition, the sensitivity of the DBO to a change in an assumption is only a reflection of the specific magnitude of the change. If an assumption changes by a different magnitude than that assumed here, the impact on the DBO will not necessarily be linear.

Asset-liability matching strategies

The treasury guidelines of the Voith Group rule out any speculative transactions. The funded pension plans in the United States therefore pursue an investment strategy that is oriented towards the obligations from the pension plans and not primarily towards maximizing the value of the securities portfolios. The goal of the investment strategy is to close any gaps in funding between the defined benefit obligation and the plan assets. If this is achieved, the goal is to maintain this funded status.

The current investment strategy is intended to reduce the funded status volatility through a US Fixed Income Liability through Custom Liability Benchmarks (CLB). The CLBs serve as a basis for participation in the capital markets while reducing investment risk, thus maintaining funding status. The CLBs are composed of Credit Indices and Treasury Securities optimized to fit plan liability cash flows. The guidelines for the diversification and allocation of the CLBs are determined by the committee for the pension plan at least once a year.

The interfaces between the actuaries, the asset managers, the pension committee and the Group treasury are structured efficiently and functionally at Voith. In addition to a monthly comparison of the data and the reporting, the persons involved exchange information on the evolution of the pension strategy on the basis of a predefined schedule.

Future cash flows

Contributions of €4,922 thousand are expected to be paid into the plans in the next reporting period.

The weighted average term of the DBO is 15 years.

21. Other provisions

The provisions consist of the following:

in € thousands	At 2020-09-30	Utilization	Additions	Reversals	Transfers	Discounting effect	Currency translation differences	At 2021-09-30
Personnel-related provisions	80,427	-7,785	12,565	-2,345	-1,527	331	106	81,772
Other tax provisions	4,319	-890	3,850	-462	2,135	0	53	9,005
Warranty provisions	163,267	-51,040	95,638	-17,117	-6,270	0	2,849	187,327
Other order-related provisions	120,001	-44,237	43,612	-12,619	326	3	3,738	110,824
Other provisions	54,869	-32,741	17,807	-1,884	-391	53	421	38,134
	422,883	**-136,693**	**173,472**	**-34,427**	**-5,727**	**387**	**7,167**	**427,062**

	2021-09-30		2020-09-30	
in € thousands	< 1 year	> 1 year	< 1 year	> 1 year
Personnel-related provisions	20,625	61,147	19,232	61,195
Other tax provisions	8,448	557	3,701	618
Warranty provisions	136,844	50,483	106,505	56,762
Other order-related provisions	107,787	3,037	117,067	2,934
Other provisions	13,707	24,427	36,555	18,314
	287,411	**139,651**	**283,060**	**139,823**

Other provisions include restructuring provisions and provisions for personnel adjustments totaling €24.2 million (previous year: €42.5 million).

Refund claims totaling €16.9 million (previous year: €12.3 million) associated with other provisions were capitalized.

Personnel-related provisions mainly comprise the phased retirement scheme ("Altersteilzeit") and long-service bonuses. In the case of provisions for phased retirement, the amount and maturity of the future payments to be made to the beneficiaries are uncertain. Warranty provisions are recorded based on past experience or on the basis of individual assessments and represent the legal and contractual warranty obligations as well as goodwill commitments to customers. The provisions generally represent amounts that will be payable within the next two fiscal years. Other contract-related provisions include obligations for services still to be rendered on customer orders or parts of orders that have been billed, obligations for service and maintenance contracts, and commission provisions. In these cases, the amount and timing of future expenses are dependent on completion of the orders concerned.

22. Bank loans and other interest-bearing liabilities

Financial liabilities include the following:

in € thousands	Current	Non-current	2021-09-30	Current	Non-current	2020-09-30
Bank loans	78,768	467,956	546,724	140,738	471,525	612,263
Financial liabilities from leases	25,527	72,662	98,189	43,264	72,235	115,499
Notes payable	1	0	1	403	0	403
Derivatives used to hedge financial transactions	291	0	291	73	0	73
Other interest-bearing liabilities	50,474	91,930	142,404	58,533	121,276	179,809
	155,061	**632,548**	**787,609**	**243,011**	**665,036**	**908,047**

Other interest-bearing liabilities contain obligations from the classification of non-controlling interests in limited partnerships based on termination rights of holders of non-controlling interests and put options.

The Voith Group's current and non-current bank loans are denominated in the following currencies:

in € thousands	2021-09-30	2020-09-30
Euro	518,497	593,649
Swedish krona	24,233	15,562
Canadian dollar	2,808	9
Indian rupee	475	148
Norwegian krone	11	2,115
Other currencies	700	780
	546,724	**612,263**

23. Trade payables

Trade payables of €484 thousand (previous year: €615 thousand) are due after more than one year.

24. Other financial liabilities/other liabilities

Other financial liabilities

in € thousands	Current	Non-current	2021-09-30	Current	Non-current	2020-09-30
Derivatives used to hedge operational transactions	21,178	11,845	33,023	20,993	13,777	34,770
Personnel-related liabilities	100,490	499	100,989	94,902	467	95,369
Sundry financial liabilities	111,822	23,850	135,672	101,024	22,748	123,772
	233,490	**36,194**	**269,684**	**216,919**	**36,992**	**253,911**

Personnel-related liabilities at fiscal year-end included outstanding annual bonus payments and outstanding payments for wages, salaries and social security contributions.

Other liabilities

in € thousands	Current	Non-current	2021-09-30	Current	Non-current	2020-09-30
Tax liabilities	58,511	9,788	68,299	59,591	8,753	68,344
Prepaid expenses	3,211	3,806	7,017	13,005	2,741	15,746
Other liabilities	75,325	31,823	107,148	69,714	30,603	100,317
	137,047	**45,417**	**182,464**	**142,310**	**42,097**	**184,407**

Tax liabilities principally relate to sales taxes (VAT).

Notes to the consolidated cash flow statement

			Non-cash changes			
in € thousands	2020-10-01	Cash changes	Changes due to currency effects	Changes in fair values	Other effects	2021-09-30
Bank loans	612,263	-66,536	775	0	222	546,724
Financial liabilities from leases	115,499	-28,911	684	0	10,917	98,189
Notes payable	403	-387	-15	0	0	1
Derivatives used to hedge financial transactions	73	0	9	209	0	291
Other interest-bearing liabilities	179,809	-3,245	124	-27,649	-6,635	142,404
	908,047	**-99,079**	**1,577**	**-27,440**	**4,504**	**787,609**
Other financial receivables	-30,169	3,589	181	55	-53	-26,397
	877,878	**-95,490**	**1,758**	**-27,385**	**4,451**	**761,212**

			Non-cash changes					
in € thousands	2019-10-01	Cash changes	Changes arising from the acquisition/ disposal of companies	Changes due to currency effects	First-time application of IFRS 16	Changes in fair values	Other effects	2020-09-30
Bank loans	228,308	321,820	63,735	-499	0	0	-1,101	612,263
Financial liabilities from leases	437	-28,697	28,083	-1,270	87,227	0	29,719	115,499
Notes payable	853	-418	0	-32	0	0	0	403
Derivatives used to hedge financial transactions	9,881	0	0	-1,663	0	-8,145	0	73
Other interest-bearing liabilities	159,974	-22,317	41,703	-1,260	0	2,770	-1,061	179,809
	399,453	**270,388**	**133,521**	**-4,724**	**87,227**	**-5,375**	**27,557**	**908,047**
Other financial receivables	-51,561	27,066	-6,105	3,897	0	522	-3,988	-30,169
	347,892	**297,454**	**127,416**	**-827**	**87,227**	**-4,853**	**23,569**	**877,878**

Notes on segment reporting

Information on the segment data

The business is managed according to the different products and business segments and corresponds to the structure of internal reporting to the Board of Management of Voith Management GmbH.

EBIT adjusted for non-recurring items (extrapolation of result from increasing the carrying values upon first-time consolidation (PPA depreciation) and restructuring expenses and other exceptional items) forms the central performance indicator for the operating result. Reconciliation of EBIT adjusted for non-recurring items to result before taxes from the Group's continuing operations contains effects which are, as a rule, shown as other operating income and expenses, and depreciation and amortization in the consolidated statement of income on account of their operating nature. In the course of calculating EBIT, these items are adjusted as non-recurring effects in order to facilitate a better assessment of segments' business operations.

The former Group Division Digital Ventures was assigned to the Group holding company as a cross-divisional function in the reporting year and is no longer managed as a separate Group Division. In the segment reporting, the figures were integrated into the reconciliation column and the previous-year figures were adjusted accordingly. In all other respects, the demarcation between the segments and the method used to calculate the segment information remains unchanged in comparison to September 30, 2020.

Segment information is generally based on the same presentation and measurement methods as the consolidated financial statements. Intercompany sales are effected at market prices, and intersegment transactions and business are all reported in accordance with the accounting policies used for the consolidated financial statements.

In the Voith Group, the key indicator to assess and manage the individual segments is return on capital employed (ROCE). The calculation of ROCE is defined as profit from operations in relation to the average capital employed. The profit from operations is obtained by adding operating interest income to EBIT. Operating interest income is defined as interest received by the Company on the long-term financing of receivables from customers, or as the imputed interest effect attributable to that portion of customer advances that is not used to finance inventories and receivables from customer-specific contracts.

Capital employed is defined as operating net assets. It is the aggregate of property, plant and equipment, and intangible assets (excluding goodwill), inventories, trade receivables, other non-interest-bearing assets and income tax assets as well as prepaid expenses, less trade payables, non-interest-bearing liabilities and income tax liabilities, deferred income and advances received, which are deducted up to the amount of inventories and PoC receivables.

The capital employed on the reporting date is an average value derived from the values as at the end of the fiscal year, as at the reporting date for the previous six-monthly financial statements and as at the end of the previous year. In contrast to the requirements of IAS 21, the assets and liabilities of foreign subsidiaries are translated at the average exchange rate for the reporting year. Owing to the use of averages, capital employed cannot be reconciled to the figures in the consolidated balance sheet on any given reporting date.

Consolidation entries were taken into account in full in calculating capital employed.

Capital expenditures relate to intangible assets (excluding goodwill) and property, plant and equipment. Additions due to business combinations are not included. The rights of use stemming from IFRS 16 were accounted for the first time in the 2019/20 fiscal year and disclosed as investments.

Sales are broken down regionally, based on the customer's registered office. Non-current assets, consisting of property, plant and equipment including rights of use, goodwill and other intangible assets, are allocated based on the location of the asset.

Information on the activities of the segments presented

As a full-line supplier for equipping hydropower plants, the Group Division Hydro is one of the world's leading industrial partners for hydropower plant operators. This applies both to the field of electricity generation and to the pumped storage of energy. Voith Hydro's portfolio of products and services covers the entire life cycle and supplies all major components for large and small hydropower plants: from generators, turbines, pumps, automation systems and digital solutions for smart hydropower right through to aftermarket business in spare parts and maintenance services, as well as training services. Voith Hydro is a joint venture with Siemens, in which Voith holds a majority (65 %) of all shares and voting rights.

As a leading partner and pioneer in the paper industry, the Group Division Paper provides technologies, products and services for the entire paper manufacturing process, all from a single source. A constant stream of innovations allows the technology group to optimize the paper manufacturing process on an ongoing basis. Voith Paper focuses on developing resource-saving products which reduce the consumption of energy, water and fibers. Furthermore, the Group Division Paper offers a broad service portfolio for all sections of the paper manufacturing process. The Company's Papermaking 4.0 concept also allows papermakers to link up their equipment in the best possible way and improve their competitiveness through effective and secure use of the data generated.

The Group Division Turbo is a supplier of components and systems for intelligent drive technology and a provider of customized services. With innovative and smart products, Voith Turbo offers highest efficiency and reliability. Customers from highly diverse industries, such as oil & gas, energy, mining and mechanical engineering, ship technology, rail and commercial vehicles, rely on the advanced technologies and digital solutions provided by Voith Turbo.

Segment information by business segment

in € millions	Hydro 2020/21	Hydro 2019/20	Paper 2020/21	Paper 2019/20	Turbo 2020/21	Turbo 2019/20
Sales with third parties	945	947	1,776	1,805	1,457	1,337
Sales with other segments	2	3	20	24	8	6
Segment sales, total	947	950	1,796	1,829	1,465	1,343
EBIT	8	10	114	104	41	42
Depreciation and amortization of property, plant and equipment and intangible assets[3]	22	24	57	56	51	44
Capital spending[4]	19	13	40	41	45	47
Segment goodwill	18	17	483	478	184	180
Average capital employed	482	485	714	735	838	830
ROCE	5.0%	5.8%	18.2%	16.0%	4.9%	5.1%
Employees[5]	3,628	3,675	7,432	7,593	6,200	6,555

[1] Sub-total of Hydro, Paper and Turbo.
[2] As of 2020/2021 fiscal year, Digital Ventures is no longer a stand-alone segment.
[3] Depreciation and amortization does not include depreciation and amortization recorded in the non-recurring result as it is not included in EBIT.
[4] Without additions due to business combinations and financial assets.
[5] Statistical headcount on reporting date.

Total core business[1]		Reconciliation[2]		Total	
2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
4,178	4,089	82	84	4,260	4,173
30	33	-30	-33	0	0
4,208	4,122	52	51	4,260	4,173
163	156	2	-17	165	139
130	124	23	26	153	150
104	101	23	30	127	131
685	675	69	76	754	751
2,034	2,050	229	246	2,263	2,296
9.6%	9.2%			8.8%	7.5%
17,260	17,823	2,658	2,811	19,918	20,634

Reconciliation of EBIT to the Group's result before taxes from continuing operations:

in € millions	2020/21	2019/20
EBIT	**165**	**139**
Non-recurring result	-77	-76
thereof PPA depreciation and amortization	-17	-17
thereof restructuring expenses	-43	-59
thereof expenses relating to other periods from a lost legal dispute	-17	0
Other adjustments	1	-1
Share of profit/loss from companies accounted for using the equity method	-6	-8
Interest income/expense	-22	0
Other financial result	19	19
Result before taxes from continuing operations	**80**	**73**

Segment information by region

External sales (registered office of customer)

	Hydro		Paper		Turbo		Reconciliation		Total	
in € millions	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
Germany	33	32	138	326	370	329	42	40	583	727
Foreign countries	912	915	1,638	1,479	1,087	1,008	40	44	3,677	3,446
thereof Europe	253	238	582	432	506	429	8	10	1,349	1,109
thereof Americas	329	370	486	499	128	148	22	28	965	1,045
thereof Asia	275	255	551	527	391	380	10	6	1,227	1,168
· of which China	124	133	363	270	266	233	5	3	758	639
thereof others	55	52	19	21	62	51	0	0	136	124
	945	947	1,776	1,805	1,457	1,337	82	84	4,260	4,173

Non-current assets

in € millions	2021-09-30	2020-09-30
Germany	711	715
Foreign countries	1,284	1,300
thereof Europe	667	685
· of which Switzerland	235	247
thereof Americas	278	279
· of which USA	226	228
thereof Asia	332	330
· of which China	263	263
thereof others	7	6
	1,995	**2,015**

Other notes

Contingent liabilities, contingent assets and other financial obligations

Appropriate provisions have been recognized in the relevant Group companies to cover potential financial obligations arising from taxation, legal and arbitration proceedings.

Over and above this there are risks from tax-related legal disputes and ongoing taxation proceedings in Brazil. No estimate of the financial effect is disclosed for reasons of practicability, as it is impossible to make any reliable estimate. The current assessment of the situation is that the proceedings will be brought to a successful conclusion and, therefore, there will be no outflow of economic resources.

Owing to the ongoing tax field audit of German companies, further changes may be made to tax items.

Legal action has been filed by a customer against a subsidiary to determine compensation for the subsequent fulfillment of contractual obligations and in the case of non-fulfillment, the compensation of expenses already incurred or yet to arise, as well as the issue of a judgment by default. The amount in dispute comes to €30 million. Based on the lawyers' assessment, the Board of Management does not expect the action to be upheld. No estimate of the financial effect of the contingent liability pursuant to IAS 37.86 is disclosed on account of the pending legal dispute pursuant to IAS 37.92 to avoid jeopardizing the Group's interests.

Over and above this, there are risks from legal disputes amounting to €21.5 million (previous year: €57.6 million).

There are also other financial obligations from purchase commitments for capital expenditures of €16,596 thousand (previous year: €8,006 thousand).

Contingent liabilities

The contingent liabilities listed below are stated at face value. No provisions were recognized for these contingencies, as the probability of occurrence is regarded as low:

in € thousands	2021-09-30	2020-09-30
Guarantee obligations	958	3,681
Warranties	0	0
Provision of collateral for third-party liabilities	800	0
	1,758	**3,681**

Most of the guarantee obligations expire in 2023.

Leases

The rental and lease agreements in the Voith Group mainly relate to buildings, passenger vehicles and machinery. The contracts essentially have terms of one to 15 years. Some companies have the option of extending their rental contracts.

Liabilities of €28,183 thousand in connection with lease agreements were repaid (previous year: €28,192 thousand). The interest expenses from the compounding of lease liabilities are disclosed in the financial result.

The interest expenses from lease arrangements amounted to €897 thousand in the 2020/21 fiscal year (previous year: €730 thousand).

Lease expenses include expenses for short-term leases of €9,573 thousand (previous year: €3,947 thousand) and expenses for leases of low-value assets of €3,229 thousand (previous year: €12,436 thousand) that are disclosed in other operating expenses.

In the 2020/21 fiscal year, total cash outflows for leases amounted to €28,911 thousand (previous year: €28,697 thousand).

Future cash outflows of an immaterial amount were not included in the lease liabilities as it is not reasonably certain that the lease agreements will be extended or not terminated.

Income from the sublease of rights of use as well as gains and losses from sale-and-leaseback transactions are immaterial in the Voith Group.

Additional information on financial instruments

Carrying amounts, amounts recognized in the balance sheet and fair values by measurement category.

in € thousands	IFRS 9 measurement category	Carrying amount 2021-09-30	Amount recognized in the balance sheet in accordance with IFRS 9: Amortized cost	Fair value through equity	Fair value through profit or loss	Amount recognized in the balance sheet in accordance with IFRS 16	Fair value 2021-09-30
Assets:							
Cash and cash equivalents	AC	511,165	511,165				511,165
Trade receivables	AC	744,140	744,140				744,140
Contract assets	n.a.	573,952	573,952				573,952
Other financial assets and securities		132,238					
· Financial investments	AC	49,494	49,494				49,494
· Loans	AC	2,781	2,781				2,781
· Investments (strategic)	n.a.	5,821					-
· Investments (financial investments)	FVTPL	59,520			59,520		59,520
· Securities	FVOCI	14,622		14,622			14,622
Derivative financial instruments		33,584					
· Forward exchange contracts	FVTPL	8,722			8,722		8,722
· Forward exchange contracts (fair value hedges)	n.a.	24,862			24,862		24,862
Other receivables		89,513					
· Financial receivables	AC	22,062	22,062				22,062
· Sundry financial assets	AC	67,451	67,451				67,451
Liabilities:							
Trade payables	AC	569,575	569,575				569,575
Bank loans/notes	AC	546,725	546,725				553,486
Financial liabilities from leases	n.a.	98,189				98,189	
Derivative financial instruments		33,314					
· Forward exchange contracts	FVTPL	8,867			8,867		8,867
· Forward exchange contracts (fair value hedges)	n.a.	24,000			24,000		24,000
· Forward exchange contracts (cash flow hedges)	n.a.	447		447			447
Other interest-bearing liabilities	AC	142,404	91,645	32,401	18,358		240,172
Sundry financial liabilities	AC	236,661	236,661				236,661

in € thousands	IFRS 9 measurement category	Carrying amount 2020-09-30	Amount recognized in the balance sheet in accordance with IFRS 9			Amount recognized in the balance sheet in accordance with IFRS 16	Fair value 2020-09-30
			Amortized cost	Fair value through equity	Fair value through profit or loss		
Assets:							
Cash and cash equivalents	AC	581,766	581,766				581,766
Trade receivables	AC	674,797	674,797				674,797
Contract assets	n.a.	539,446	539,446				539,446
Other financial assets and securities		185,604					
· Financial investments	AC	120,730	120,730				120,730
· Loans	AC	9,589	9,589				9,589
· Investments (strategic)	n.a.	7,178					-
· Investments (financial investments)	FVTPL	34,199			34,199		34,199
· Securities	FVOCI	13,908		13,908			13,908
Derivative financial instruments		14,401					
· Forward exchange contracts	FVTPL	2,836			2,836		2,836
· Forward exchange contracts (fair value hedges)	n.a.	11,386			11,386		11,386
· Forward exchange contracts (cash flow hedges)	n.a.	179		179			179
Other receivables		128,076					
· Financial receivables	AC	18,445	18,445				18,445
· Sundry financial assets	AC	109,631	109,631				109,631
Liabilities:							
Trade payables	AC	537,532	537,532				537,532
Bank loans/notes	AC	612,666	612,666				618,730
Financial liabilities from leases	n.a.	115,499				115,499	
Derivative financial instruments		34,843					
· Forward exchange contracts	FVTPL	3,060			3,060		3,060
· Forward exchange contracts (fair value hedges)	n.a.	31,783			31,783		31,783
Other interest-bearing liabilities	AC	179,809	102,940	58,530	18,339		330,632
Sundry financial liabilities	AC	219,140	219,140				219,140

Fair value hierarchy for the financial assets and liabilities recognized at fair value listed in the table above:

in € thousands	2021-09-30	Level 1	Level 2	Level 3
Assets				
Securities	14,622	14,622	0	0
Derivative financial instruments	33,584	0	33,584	0
Investments	59,520	0	0	59,520
Equity and liabilities				
Derivative financial instruments	33,314	0	33,314	0
Liabilities arising from the acquisition of investment shareholdings	50,759	0	0	50,759

in € thousands	2020-09-30	Level 1	Level 2	Level 3
Assets				
Securities	13,908	13,908	0	0
Derivative financial instruments	14,401	0	14,401	0
Investments	34,199	0	0	34,199
Equity and liabilities				
Derivative financial instruments	34,843	0	34,843	0
Liabilities arising from the acquisition of investment shareholdings	76,869	0	0	76,869

The three-level fair value hierarchy divides the input factors used in the measurement techniques to measure the fair value into three levels, as follows:

Level 1:
Input factors quoted in active markets accessible to the Company for identical assets or liabilities on the measurement date.

Level 2:
Other inputs than those at level 1 for which observable market data which relates directly or indirectly to the financial assets or liabilities is available.

Level 3:
Input factors for which there is no observable market data.

Within the Group, transfers between fair value hierarchy levels are performed at the end of the reporting period. No transfers were made between the levels of the fair value hierarchy in the 2020/21 and 2019/20 fiscal years.

The fair values of derivative financial instruments allocated to level 2 of the fair value hierarchy are taken from the daily observable exchange rates, associated forward rates and the term structure of interest rates. In addition, fair value measurement includes both the counterparty credit risk and the Group's own credit risk. Input factors that take account of counterparty credit risk can be obtained from observable credit default swaps (CDS) from the banks participating in the respective transaction. For Voith the market CDS rates were used to calculate the Group's own credit risk.

€60 million (previous year: €34 million) of the investments allocated to level 3 of the fair value hierarchy relate to those held by the Group as investments with a view to generating income. These investments are therefore measured at fair value through profit or loss (FVTPL). The fair values of the investments were determined by firstly calculating the fair value for each investment resulting in each case from the total of the shares held and cash and cash equivalents available as at the measurement date. The equity value of the respective investment is determined on the basis of a market-oriented measurement approach, the multiplier method, and is calculated in each case from the total value of the Company less the net financial position. In the present case, multipliers derived from representative external transactions are used, taking account of current developments up to the measurement date. These multipliers are multiplied by the average of operating results (EBITDA) achieved in the past in relation to the total enterprise value. In a second step, the fair values of the investments attributable to Voith are calculated in accordance with the existing ownership structure. One investment in this measurement category with a market value of €12.5 million is intended to be sold in the next fiscal year.

Investments that the Group would like to hold over the long term for strategic purposes, and for which it exercised the OCI option, are allocated to level 3 of the fair value hierarchy. Both in the current year and in the previous year, market values of an immaterial amount were determined for these investments. No dividends were recognized in profit or loss from the equity investments designated as FVOCI in the 2020/21 fiscal year. One material investment from the Digital Ventures business segment was sold in part in the previous year as part of a strategic realignment (gain on sale: €5 million). A market value of €0 was determined for the remaining shares that had a market value of €10 million at the time of the partial sale. The fair value of this investment was determined on the basis of the anticipated future cash flows.

A rise (fall) in the projected figures or falling (rising) interest rates would give rise to an increase (decrease) in the fair value of the investment.

The fair values of liabilities arising from business combinations that are allocated to level 3 relate to put options held by non-controlling shareholders as well as contractually agreed purchase price installments for the future acquisition of shares. The fair values were determined on the basis of the current planning prepared by management using the discounted cash flow method. The planning assumptions are adjusted to reflect the current information available. A risk-adjusted discount rate (WACC) was used for discounting. Agreements concluded under company law generally contain a fixed formula for calculating the purchase price in the event of the put options being exercised. In this respect, the purchase prices result from the gross business values of the investments determined using the multiplier method in accordance with a contractually agreed definition, minus the net debt, multiplied by the non-controllers' shareholdings. If the put options can be exercised only at a later date, the purchase prices are discounted to the reporting date using an interest rate (WACC) appropriate for the term involved.

If the business value of the underlying companies were to increase (decrease), this would lead to an increase (decrease) in the liabilities from the acquisition of investment shareholdings.

The changes in the fair values of assets and liabilities classified as level 3 in the fair value hierarchy were as follows:

in € thousands	2021-09-30	2020-09-30
Balance, October 1	**-42,670**	**1,716**
Acquisition of investments	6,559	5,539
Exercise of put options	20,625	0
Disposal of investments FVTPL	0	-2,554
Disposal of investments FVOCI	0	-4,906
Put options from business combinations	0	-25,610
Change in valuation policy	0	-10,629
Fair value changes of the investments recorded in the financial result	19,339	1,038
Fair value changes in liabilities from the acquisition of investment shareholdings recorded in the financial result	-506	-1,064
Fair value changes in the investments recorded in other comprehensive income	0	-5,094
Fair value changes in liabilities from the acquisition of investment shareholdings recorded in other comprehensive income	5,414	-1,106
Balance, September 30	**8,761**	**-42,670**

The fair values of financial assets and financial liabilities measured at cost or amortized cost, which need to be determined to meet disclosure requirements, are calculated as follows:

Cash and cash equivalents, trade receivables and other financial receivables are subject to floating interest and fall due within one year. For this reason, their carrying amounts approximate their market values on the reporting date.

Because trade payables and other financial liabilities generally have short residual terms, their carrying amounts approximate the market values.

The market value of the note loan of €465 million (previous year: €566 million) is calculated in the same way as the market values of unlisted bonds, bank loans and other financial liabilities as the present value of the payments associated with the liabilities, based on the effective yield curve and Voith GmbH & Co. KGaA's credit spread curve determined for different currencies (fair value hierarchy level 2).

The market value of other financial liabilities totaling €120 million (previous year: €177 million) was determined based on internal planning data. These are measured using the discounted cash flow projections taken from the latest business planning prepared by management. The planning assumptions are adjusted to reflect the current information available (fair value hierarchy level 3).

Net gains and losses recognized in profit or loss for each measurement category of financial instruments:

in € thousands	2020/21	2019/20
Financial assets measured at amortized cost (AC)	13,292	43,199
Financial assets measured at fair value through other comprehensive income (FVOCI)	344	597
Financial assets and liabilities measured at fair value through profit or loss (FVTPL)	17,779	12,847
Financial liabilities measured at amortized cost (AC)	-5,255	-42,769

For details of net gains and losses from financial assets recognized in other comprehensive income we refer to note 19.

Net gains and losses recognized on financial assets measured at amortized cost (AC) mainly relate to trade receivables.

Interest income of €6,202 thousand (previous year: €4,415 thousand) and interest expenses of €12,106 thousand (previous year: €10,674 thousand) for financial assets or financial liabilities relate to those assets or liabilities measured at amortized cost. No interest was recorded for financial assets measured at fair value through other comprehensive income or for financial assets measured at fair value through profit or loss.

Offsetting of financial instruments

The following table shows the volume that can potentially be offset under master netting agreements. The agreements do not meet the criteria required for net presentation in the balance sheet due to the fact that the Group does not have a present legal right to offset the amounts recognized, as the right to offset is conditional on the occurrence of future events.

in € thousands	Gross presentation balance sheet 2021-09-30	Volume that can potentially be offset under master netting agreements	Potential net amount
Assets			
Derivative financial instruments	33,584	17,353	16,231
Equity and liabilities			
Derivative financial instruments	33,314	17,353	15,961

in € thousands	Gross presentation balance sheet 2020-09-30	Volume that can potentially be offset under master netting agreements	Potential net amount
Assets			
Derivative financial instruments	14,401	12,387	2,014
Equity and liabilities			
Derivative financial instruments	34,843	12,387	22,456

Collateral

As at the reporting date, the financial assets include non-current securities totaling €7,869 thousand (previous year: €8,039 thousand) that are used to cover future pension obligations. Furthermore, €210 thousand of the sundry financial assets (previous year: €242 thousand) has been provided as collateral for liabilities and contingent liabilities. They may be drawn on if the underlying obligations are not fulfilled or if the contingent liabilities are realized.

Assets of €732 thousand (previous year: €470 thousand) have been provided as collateral for financial liabilities.

Risk management

Principles of financial risk management

The Voith Group is a global business and is exposed to risks arising from changes in interest rates and exchange rates in the course of its ordinary business activities which affect part of its liabilities, assets and transactions. These risks could affect its net assets, financial position and earnings position. The aim of financial risk management is to manage and limit these risks.

The principles of the Group's financial policy are laid down by the Voith GmbH & Co. KGaA Board of Management and monitored by the Supervisory Board. Corporate Finance, a corporate department of Voith GmbH & Co. KGaA, implements the financial policy and regularly reports to the Chief Financial Officer on the financial position of the Group and its current risk exposures. Certain financial transactions require special approval by the Corporate Board of Management. Long-term refinancing is obtained by Voith GmbH & Co. KGaA.

Derivative financial instruments are used to limit the currency and interest rate risks arising both from operating business and from the resultant financing requirements. These instruments are used in accordance with clearly defined, consistent, Group-wide guidelines. Compliance with these guidelines is verified on an ongoing basis. Hedge transactions and cash investments are placed only with financial institutions that have first-class credit ratings.

Credit risk

The Group does business only with recognized, creditworthy third parties. Customers, who wish to do credit-based business with the Group, are subjected to a credit check.

Cash and cash equivalents and other financial assets:

For the purposes of internal risk management, other financial assets consist essentially of cash and short-term securities. Counterparty default risks associated with term deposits are limited by selecting solvent banking partners and by spreading cash across multiple counterparties. For banks, a ratings-based limit (derived from credit default swaps/rating) is monitored constantly. If a defined threshold is exceeded with the CDS rates, the limits are reduced and funds have to be allocated. In addition, the Voith Group invests in securities and monitors the associated risks of these centrally. The low credit risk exemption is applied. Voith allocates cash investments to business partners with investment grade ratings. In addition, all counterparties are continually monitored using a risk management system based on CDS rates.

With respect to credit risk arising from the Group's other financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. For details of financial guarantees, please refer to the discussion of contingent liabilities. This kind of loss can occur if individual business partners fail to meet their contractual obligations. As a rule, no collateral exists for such an eventuality.

For determining the expected credit losses (ECL) for other financial instruments, Voith uses an evaluation model in which determination of the ECL is based on probabilities of default observable in the capital market and that are applied in each case to the individual counterparties and the associated exposures. Market-orientated probabilities of default for the relevant counterparties are derived on the basis of the corresponding credit default swap (CDS) rates that reflect the future expected credit losses. In the consolidated financial statements, the ECL for other financial instruments is of secondary importance, which means that no further quantification is necessary.

A significant rise in credit risk is assumed if the financial assets are more than 30 days overdue. An event of default is assumed if the financial assets are more than 90 days overdue. Objective evidence of impairment exists, for example, in a situation where the debtor is in significant financial difficulties or there has been a breach of contract such as an overdue payment.

Trade receivables:
Credit risk arising from the delivery of goods and services stems from manufacturing risks and receivable risks. Management of these risks is governed by rules that are binding throughout the Voith Group. The maximum default risk is limited to the carrying amount of trade receivables, which is €744,140 thousand (previous year: €674,797 thousand). The maximum default risk for contract assets is €573,952 thousand (previous year: €539,446 thousand). Based on the collateral held, the maximum default risk for trade receivables is reduced by €109,051 thousand (previous year: €67,796 thousand) and that for contract assets by €36,161 thousand (previous year: €6,594 thousand).

All orders above a defined contract value are subject to general risk assessment requirements. Without special permission from the relevant decision-making bodies, Group companies do not accept unsecured orders from customers whose credit rating is below a defined threshold and who cannot furnish an adequate guarantor.

Political manufacturing and receivables risks with a Euler Hermes Country Risk Level of 3 or higher must, as a rule, be hedged, unless approval is issued by the decision-making bodies in individual cases. Further risk assessment is also activated for orders upward of defined contract values. Necessary credit insurance is obtained via export credit agencies (ECAs), in the private insurance market or by means of bank products.

The impairment model in IFRS 9 involves a risk allowance for expected credit losses (ECL), which constitutes a shift away from recognition on the basis of losses incurred, as was previously the case. This means that the accounting method moves closer to forward-looking credit risk management and necessitates a model for measuring expected credit losses on trade receivables and, most recently, also for contract assets that takes account of macroeconomic factors (“forward-looking information”). IFRS 9 does not contain any regulations on the specific design of the model.

IFRS 9 does not permit mere extrapolation of credit losses observed in the past, which means that a certain likelihood of default exists even for customers who have always had a first-class rating.

Voith uses a simplified evaluation model in which determination of the ECL is based on probabilities of default observable in the capital market and that are applied in each case to the portfolio of receivables and the contract assets (exposure) for each individual region and Group Division. In this context, allocation of total exposure to the relevant regions is derived from the regional distribution of sales in the past fiscal year. Market-orientated probabilities of default for the relevant regions and Group Divisions are derived on the basis of the corresponding credit default swap (CDS) rates that reflect the future expected credit losses. Any impaired and hedged receivables still contained in the exposure are taken into account as necessary.

In principle, expected credit losses should be determined at the level of individual instruments, but, for the purpose of simplification, clustering is deemed permissible and is customary in practice. With regard to clustering, it should be noted that the clusters must be comprised of financial instruments with homogeneous characteristics. In this respect, the assumption is made that each of the outstanding receivables have similar risk features and are thus subject to similar default probabilities. Voith performs clustering according to the Group Divisions Hydro, Paper, Turbo and Others, and according to geographical regions.

The following structure of external default risk rating classes is derived from the ECL model:

in € thousands	External rating	Breakdown of receivables	Gross carrying amount[1]	Impairment loss	Net carrying amount	Loss rate
2021-09-30						
Low risk	**AAA to BBB-**	91%	1,290,370	-6,228	1,284,142	0.48%
Medium risk	**BB+ to BB-**	7%	100,810	-802	100,008	0.80%
High risk	**B+ to B-**	1%	20,162	-5,779	14,383	28.66%
2020-09-30						
Low risk	**AAA to BBB-**	91%	1,527,428	-7,177	1,520,251	0.47%
Medium risk	**BB+ to BB-**	6%	98,544	-8,088	90,456	8.21%
High risk	**B+ to B-**	3%	49,272	-398	48,874	0.81%

The impairment model applied is based on an event of default of the receivable after a maturity of 365 days.

Prior to application of the model at Group level, the Voith companies examined the portfolio of receivables with regard to objective evidence of impairment, such as delayed payment on the part of the debtor for no apparent reason, significant levels of debt or breach of contract. The gross carrying amount of the impaired receivables from customers is ultimately derecognized when the debtor has become insolvent and insolvency proceedings have been opened.

[1] Gross carrying amount less specific bad debt allowances and without taking account of deduction of provisions on the assets side.

The Group is not exposed to any material concentration of risks. Corporate policy is to avoid concentration of credit risk in a single financial institution. Instead, the Group invests with a variety of creditworthy financial institutions. The Group's customer structure is not materially concentrated in any particular geographic region. The Group tests doubtful accounts for impairment considering certain customers, historical trends, branches of industry and various other information.

Liquidity risk

To ensure that it can always meet its financial obligations, the Voith Group has negotiated sufficient cash lines and syndicated credit facilities with its banking partners.

In February 2020, Voith took out a note loan of €400 million with terms of five, seven and ten years. Fixed interest (€169 million) or variable interest on the basis of the 6M Euribor (€231 million) is payable on the tranches. This mainly serves to increase the volume of cash and cash equivalents as a precaution. In addition, another portion of the note loan amounting to €102 million was used in November 2020 to repay another note loan as it becomes due.

After exercising a second renewal option, the existing syndicated euro loan of €550 million was extended to April 2025. No financial covenants were arranged. It has not been drawn on and is available as a strategic liquidity reserve if needed. Over and above this, confirmed cash credit lines of €375 million with terms of 2–3 years are available. No funds had been drawn from this facility as at the reporting date, either. Further free, unconfirmed credit lines from banks in a mid-three-digit million euro range are used on a case-by-case basis for the short-term financing of working capital. To safeguard internal and external growth, the Voith Group procures long-term funding on the capital markets by issuing bonds, through private placements and individual bank loans.

The syndicated loan in China was refinanced in 2019 and matures in 2024. It secures the finance for the operating business on the local market in the same currency as business operations. No funds were drawn from this facility over the reporting year.

The credit facilities are subject to the customary market conditions and contractual terms and conditions based on Voith's rating. As in previous years, all contractual terms and conditions were complied with in full in the 2020/21 fiscal year. The ratings given by the rating agencies Moody's, S&P and Scope remain at Ba1 stable, BB+ stable and BBB- negative.

The liquidity of Group companies is ensured by means of cash pools, intercompany loans and the allocation of external bank credit lines to individual operating units. Corporate Finance produces monthly finance status reports for the entire Group. Balances of central bank and cash pool accounts and bank guarantees are available on a daily basis.

The table below lists the undiscounted, contractually agreed cash outflows for financial instruments:

in € thousands	2021-09-30	Cash flows < 1 year	Cash flows 1–5 years	Cash flows > 5 years
Trade payables	569,575	569,090	528	0
Bank loans/notes	546,725	83,384	274,610	213,484
Financial liabilities from leases	98,189	28,304	61,194	12,868
Other interest-bearing liabilities	142,404	50,474	31,397	60,420
Sundry financial liabilities	236,661	212,312	23,630	720
Derivative financial instruments	33,314			
· Outflows		475,546	195,097	0
· Inflows		-454,303	-183,025	0
	1,626,868	**964,807**	**403,431**	**287,492**

in € thousands	2020-09-30	Cash flows < 1 year	Cash flows 1–5 years	Cash flows > 5 years
Trade payables	537,532	536,918	709	0
Bank loans/notes	612,666	147,049	255,680	237,462
Financial liabilities from leases	115,499	46,347	58,029	17,060
Other interest-bearing liabilities	179,809	58,533	39,396	81,803
Sundry financial liabilities	219,140	195,925	22,701	513
Derivative financial instruments	34,843			
· Outflows		226,008	129,881	4,619
· Inflows		-205,094	-124,920	-5,249
	1,699,489	**1,005,686**	**381,476**	**336,208**

Solvency is ensured and liquidity managed using cash equivalents and short-term securities which can be transformed into cash at any time.

Derivatives include cash outflows for derivative financial instruments with negative market values for which gross cash settlement has been agreed. The cash outflows for these financial derivatives are matched by corresponding cash inflows which are shown separately in the table above under inflows and outflows (gross). On the other hand, where a net cash settlement is effected, cash outflows are presented on a net basis.

There are no expectations that cash flows presented in the maturity analysis could be incurred significantly earlier, or that there will be significant changes to the cash flow amounts.

Financial market risk

Foreign exchange risk:

Global production and trading activities expose the Voith Group to risks arising from fluctuations in exchange rates. Foreign exchange risks exist in particular wherever receivables, liabilities, cash and cash equivalents, and orders received (fixed obligations/forecast transactions) are or will be denominated in a currency other than the functional currency of the Group company concerned.

Most currency hedging is undertaken by Corporate Finance and its Regional Finance Center. Transaction risks arising from the international delivery of goods and services are mainly limited by forward exchange contracts. In general, all foreign currency transactions at the Voith Group are hedged. Major balance sheet items and orders are hedged individually within the framework of hedge accounting (full fair value method). Based on this, the foreign currency risk essentially corresponds to the nominal value of the forward exchange contracts.

In the project business, both the hedge relationship and the risk management objectives and strategies must be documented in respect of the underlying hedged item or transactions before external hedges are entered into.

Hedges must be highly effective to be in compliance with the Voith Group's risk management strategy. Where hedges are demonstrated to be effective, the transactions qualify for hedge accounting. The Group uses the dollar offset and critical term match method to assess whether the derivative designated in each hedge will probably be effective and has been effective. As a result, fluctuations in the exchange rate do not affect profit or loss, nor do they influence project costing.

Main causes for these hedges being ineffective can be firstly the impact of the credit risk of the counterparties and the Group on the fair value of the forward exchange contracts that are not reflected in the change in the fair value of the hedged cash flows and that are attributable to the change in the exchange rates, and secondly changes in the timing of the hedged transaction.

In the Voith Group, derivative financial instruments are traded externally by Corporate Finance on behalf of Group companies. Group companies in countries subject to foreign exchange restrictions hedge their currency risks locally. A Group-wide treasury management software tool is used for central scheduling, monitoring and documentation of all foreign currency hedges entered into by Corporate Finance or Group companies.

Changes in the US dollar exchange rate are significant for the Voith Group. The net USD exposure amounted to €254 million as at September 30, 2021 (previous year: €199 million). Based on the balance sheet items described above, the effects on the net result and consolidated equity are as follows: if the US dollar falls by 5%, the result before taxes increases by €4,473 thousand (previous year: increase of €5,619 thousand) and other comprehensive income decreases by €197 thousand (previous year: increase of €327 thousand). If, on the other hand, the US dollar rises by 5%, the result before taxes decreases by €4,473 thousand (previous year: decrease of €5,619 thousand) and other comprehensive income increases by €197 thousand (previous year: decrease of €327 thousand). The exposure not taken into consideration in the sensitivity analysis amount to €146 million for CNY (previous year: €60 million) and to €55 million for SEK (previous year: €12 million).

Interest rate risk:
The Voith Group's exposure to interest rate risks arising from external refinancing is analyzed and managed centrally by Corporate Finance. Medium- to long-term assets and liabilities with fixed interest rates are the main source of interest rate risks at the Group, as changes in market rates of interest can cause the value of a financial instrument to fluctuate. The risk to the market value of fixed-interest receivables and liabilities and the interest rate risk with floating-rate receivables and liabilities is hedged on a case-by-case basis, for example by means of interest rate swaps and, where appropriate, hedge accounting is applied.

The relevant asset items are essentially cash at banks that is invested in the money market and/or is used to fund the existing cash pools. The Group companies that participate in the cash pool operate a daily zero-balancing policy and therefore have no exposure to external interest rate risks.

On the cost side, interest rate risks arise from a note loan and a variety of bank loans.

The carrying amounts of the Group's significant financial instruments that are exposed to interest rate risks are grouped by their contractually agreed maturities in the following table:

2021-09-30 in € thousands	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	More than 5 years	**Total**
Floating interest rate							
Cash and cash equivalents	511,165	0	0	0	0	0	**511,165**
Bank loans	77,405	1,110	1,109	98,189	711	135,342	**313,866**
Fixed interest rate							
Bank loans	1,363	38,711	737	102,896	21,701	67,450	**232,858**

2020-09-30 in € thousands	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	More than 5 years	**Total**
Floating interest rate							
Cash and cash equivalents	581,766	0	0	0	0	0	**581,766**
Bank loans	38,750	500	500	500	97,971	137,409	**275,630**
Fixed interest rate							
Bank loans	101,987	1,987	39,314	737	102,796	89,812	**336,633**

If the 6M Euribor were to rise at the next two interest dates by 100 basis points on the level at September 30, 2021, additional interest costs of €1.1 million p.a. (previous year: €1.2 million p.a.) would arise for the variable part of the note loan. If, in contrast, the 6M Euribor were to fall at the next two interest dates by 100 basis points, the interest costs would remain unchanged.

The interest result from the other material floating-rate financial instruments would have been €4.3 million higher (lower) (previous year: €5.4 million higher (lower)) if the market rate of interest had been 100 basis points higher (lower) as at September 30, 2021. This effect chiefly originates from floating-rate financial instruments in the currency CNY (€2.5 million). In the previous year, this effect chiefly originated from euro-denominated floating-rate financial instruments (€2.7 million).

Risks relating to securities and stock prices:
The Voith Group holds securities in the "at fair value through other comprehensive income (FVOCI)" measurement category of €15 million (previous year: €14 million). A 10% change in the underlying stock prices would cause equity to change by 10% of the carrying amount of the stocks concerned.

It should be noted that all existing stock price risks are analyzed continuously and suitable counteraction is taken accordingly.

Commodity price risk:
The Voith Group is exposed to risks arising from changes in commodity prices, as these also affect most of the semi-finished goods that it needs. Voith's Corporate Purchasing regularly reviews the nature, volume and scheduling of the Group's materials requirements. On request by Corporate Purchasing and in consultation and agreement with Group companies, suitable forward commodity contracts can be arranged by Corporate Finance to limit any latent commodity price risks. The Group had commodity contracts of an immaterial amount in the fiscal year.

Hedge relationships:
The following items are used to hedge foreign exchange risks:

2021-09-30	Nominal values[1]		Positive market values		Negative market values	
in € thousands	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Forward exchange contracts (fair value hedges)	595,944	249,947	16,775	8,087	15,326	8,674
Forward exchange contracts (cash flow hedges)	11,050	991	0	0	447	0
Other derivatives	330,954	156,053	4,452	4,270	5,696	3,171
	937,948	**406,991**	**21,227**	**12,357**	**21,469**	**11,845**

[1] Nominal values refer to the volume of the hedged transaction in local currency, translated at the closing rate.

2020-09-30	Nominal values[1]		Positive market values		Negative market values	
in € thousands	< 1 year	> 1 year	< 1 year	> 1 year	< 1 year	> 1 year
Forward exchange contracts (fair value hedges)	431,007	386,165	7,855	3,531	18,234	13,549
Forward exchange contracts (cash flow hedges)	26,593	0	179	0	0	0
Other derivatives	233,750	20,545	2,329	507	2,832	228
	691,350	**406,710**	**10,363**	**4,038**	**21,066**	**13,777**

Positive market values are disclosed at the reporting date as other financial assets and negative market values as financial liabilities (in the case of financial transactions) or as other financial liabilities (in the case of operational transactions).

The market values of the forward exchange contracts were determined as present values of the cash flows taking account of the respective contractually agreed forward rates and the forward rate on the reporting date. The average rates of the forward exchange contracts entered into for material currency pairs are as follows as at September 30, 2021:

	Average hedged rates	
	< 1 year	> 1 year
EUR/USD	1.1985	1.2782
EUR/CNY	7.8984	7.1159
USD/BRL	4.3087	5.4593
USD/CNY	6.7138	7.1632
USD/INR	75.5438	80.2852

Fair value hedges:
The Group uses fair value hedges primarily to hedge foreign exchange risks.

In the 2020/21 fiscal year, a gain of €21,260 thousand was recorded on derivative financial instruments classified as fair value hedges (previous year: a loss of €10,877 thousand). Since the hedges have been mainly classified as highly effective, measurement of the hedged transactions at the reporting date produced an offsetting gain/loss in the same amount.

[1] Nominal values refer to the volume of the hedged transaction in local currency, translated at the closing rate.

The following table presents the measurement effects of the underlying hedged transactions ("firm commitments") and the change in the value of the underlying transactions that are used as a basis for determining whether the hedge is ineffective. The change in the value of the hedging instruments that were used as a basis for determining whether the hedge is ineffective corresponds to the change in value of the underlying hedged transactions.

	Balance sheet item		
in € thousands	Sundry financial assets	Financial liabilities/ sundry financial liabilities	Change in the value of the underlying hedged transactions that were used as a basis for determining whether the hedge is ineffective
2021-09-30			
Firm commitments	10,137	16,097	-863
2020-09-30			
Firm commitments	20,501	8,623	20,397

In the 2020/21 fiscal year, positive effects on profit or loss of €1 million arose from ineffective hedges (previous year: none) that are contained in other expenses.

Changes in the value of derivative financial instruments that do not meet the requirements for hedge accounting under IAS 39 are recognized as income or expenses in profit or loss at the reporting date.

Cash flow hedges:
As at September 30, 2021, there were cash flow hedges in place that are subject to currency risks.

Hedge relationships designed to hedge cash flows from forecast sales transactions were classified as highly effective. Accordingly, an unrealized loss of €500 thousand (previous year: gain of €124 thousand) was recognized within consolidated equity in other reserves as at September 30, 2021.

The following table presents the measurement effects of the underlying hedged transactions ("forecast transactions") and the change in the value of the underlying transactions that are used as a basis for determining whether the hedge is ineffective. The change in the value of the hedging instruments that were used as a basis for determining whether the hedge is ineffective corresponds to the change in value of the underlying hedged transactions.

in € thousands	Change in the fair values of the underlying transactions	Hedge reserve	Change in the value of the underlying hedged transactions that were used as a basis for determining whether the hedge is ineffective
2021-09-30			
Forecast transactions	-626	-500	-626
2020-09-30			
Forecast transactions	-224	124	-224

There were no effects on profit or loss from ineffective hedges in the 2020/21 and 2019/20 fiscal years.

In the 2020/21 fiscal year, there was a reclassification from other reserves to other operating expenses in the income statement of €-70 thousand (previous year: €764 thousand) on account of the termination of hedges. As in the previous year, no gains or losses were taken into account in the cost of inventories, cash flow hedges currently in place provide for reclassification through profit or loss.

Research and development costs

In the 2020/21 fiscal year, research and development costs totaled €192,028 thousand (previous year: €188,592 thousand).

Of this amount, development costs of €6,030 thousand (previous year: €10,025 thousand) were capitalized in the balance sheet. The remaining costs represent activities for non-customer-specific new developments and improvements of €139,055 thousand (previous year: €132,611 thousand) and development activities of €46,943 thousand (previous year: €45,956 thousand) capitalized for customer-specific contracts.

Transactions with related parties and individuals

In the course of its ordinary business activities, Voith GmbH & Co. KGaA maintains relationships both with the subsidiaries listed in these consolidated financial statements and with other related companies and individuals (family members who are shareholders, and members of the Supervisory Board and of the Board of Management).

In the 2007/08 fiscal year, one subsidiary of Voith GmbH (as it was known at the time) was sold to family shareholders in a transaction under common control. That company, JMV GmbH & Co. KG, Heidenheim an der Brenz, Germany, was merged into JMV SE & Co. KG, Heidenheim an der Brenz, Germany in the 2019/20 fiscal year. Since then, it has been the ultimate parent company of the Voith Group.

All business transactions with related parties are conducted at arm's length conditions.

Members of the Board of Management of Voith Management GmbH, members of the Supervisory Board of Voith GmbH & Co. KGaA and family member shareholders also serve on the supervisory boards of other companies with which Voith maintains relationships in the course of its ordinary business activities. Any transactions involving these companies are conducted at arm's length conditions.

A total of €600 thousand (previous year: €600 thousand) was paid at customary market rates to members of the Supervisory Board and former members of the Board of Management for consulting and other services. Consulting services for a total of €462 thousand (previous year: €0) were provided by other related parties, of which €122 thousand had yet to be paid as at September 30, 2021.

The majority of goods and service transactions with related parties (entities and individuals) are shown in the table below:

in € thousands	2020/21	2019/20
Liabilities to family shareholders	8,636	7,186
Services purchased from associates	307	257
Services rendered to associates	4,931	3,397
Receivables from associates	58	4,472
Liabilities to associates	848	753
Services purchased from other investments	3,140	3,753
Services rendered to other investments	10,323	10,414
Receivables from other investments, including advances paid	10,454	10,231
Impairment of receivables from other investments	-354	-375
Liabilities to other investments and to Voith Management GmbH	27,912	27,260
Services purchased from joint ventures	2	164
Services rendered to joint ventures	8	0
Receivables from joint ventures	255	170
Liabilities to joint ventures	846	725
Services purchased from the ultimate parent company	10,925	11,271
Services rendered to the ultimate parent company	1,406	1,336
Receivables from the ultimate parent company	498	55
Liabilities to the ultimate parent company	10,303	9,568

Liabilities to family shareholders include current floating-rate clearing accounts and pension obligations.

For more information on the profit participation rights of €103,400 thousand (previous year: €103,400 thousand) granted to family shareholders, please refer to note 19.

In the 2020/21 fiscal year, no guarantees were issued in favor of other investments (previous year: €1,101 thousand).

Capital increases totaling €853 thousand (previous year: €625 thousand) were made in favor of joint ventures.

Compensation of governing bodies

The compensation for members of the Board of Management of Voith Management GmbH, including pension expenses, totaled €9,831 thousand in the fiscal year (previous year: €10,420 thousand). Due to the fact that these expenses are recharged by Voith Management GmbH to Voith GmbH & Co. KGaA, they are presented in the Voith Group's consolidated statement of income wholly within personnel expenses. This amount includes short-term benefits totaling €9,004 thousand (previous year: €6,039 thousand), post-employment benefits of €827 thousand (previous year: €877 thousand) and termination benefits pursuant to IAS 24 of €0 (previous year: €3,505 thousand).

The compensation for members of the Board of Management under commercial law totaled €8,186 thousand (previous year: €5,490 thousand).

As a consequence of bringing together the Corporate Board of Management at Voith Management GmbH, the pension commitments to this group of individuals existing prior to their appointment to the Voith Corporate Board of Management was transferred to Voith Management GmbH at the respective fulfillment amount under commercial law. On this basis, a further fulfillment amount of €280 thousand was transferred in the 2020/21 fiscal year.

The present value as at September 30, 2021, of the defined benefit obligations to the Corporate Board of Management at Voith Management GmbH amounted to €9,990 thousand (including entitlements from deferred compensation; previous year: €9,424 thousand).

The present value of all pension commitments toward past members of the Board of Management total €90,690 thousand (previous year: €91,741 thousand). Of these amounts, €2,730 thousand (previous year: €2,878 thousand) relates to obligations on the part of the former parent of the Group, J.M. Voith SE & Co. KG, toward past members of the Corporate Board of Management.

Plan assets for former members of the Board of Management total €38,602 thousand (previous year: €37,923 thousand).

These amounts are included in note 20.

The compensation for past members of the Board of Management totaled €4,967 thousand (previous year: €4,437 thousand). Of this amount, €399 thousand (previous year: €397 thousand) relate to compensation for the members of the Board of Management of the former parent of the Group, J.M. Voith SE & Co. KG.

The members of the Supervisory Board of Voith GmbH & Co. KGaA received (short-term) compensation of €376 thousand (previous year: €380 thousand).

Auditor's fees and services

The following fees (including reimbursement of expenses) were paid to the independent auditor for the services rendered in the 2020/21 fiscal year:

in € thousands	2020/21	2019/20
Annual audit	2,784	2,741
Other assurance or valuation services	0	4
Tax advisory services	999	684
Other services	6	6
	3,789	**3,435**

Subsequent events

On October 21, Voith came to an agreement with Siemens Energy on the acquisition of the remaining 35% shareholding in Voith Hydro Holding GmbH & Co. KG. Once the transaction has been completed, the Voith Group will be the sole shareholder in the Group Division Hydro that has been managed to date as a joint venture with Siemens Energy. Subject to the required antitrust and other approvals, we expect the acquisition to be finalized towards the end of the first quarter of 2022. The acquisition is planned to be made by a company controlled by the ultimate parent company, JMV SE & Co. KG, and that is not included in the present consolidated financial statements. It is intended for the purchase price to be financed by a loan being granted to the acquiring company by a company included in the present consolidated financial statements.

Corporate Board of Management

The following were appointed members of the Board of Management of Voith Management GmbH in the 2020/21 fiscal year:

Dr. Toralf Haag
Egon Krätschmer
Dr. Stefan Kampmann (from December 1, 2020)
Andreas Endters
Uwe Wehnhardt
Cornelius Weitzmann (from June 1, 2021)
Dr. Uwe Knotzer (until May 31, 2021)

Heidenheim an der Brenz, November 29, 2021

The Board of Management of Voith Management GmbH

Dr. Toralf Haag
Egon Krätschmer
Dr. Stefan Kampmann
Andreas Endters
Uwe Wehnhardt
Cornelius Weitzmann

The German language consolidated financial statements of Voith GmbH & Co. KGaA as at September 30, 2021, as authorized for issue and the unqualified audit opinion issued thereon by KPMG Wirtschaftsprüfungsgesellschaft, Munich, will be filed in German at the Bundesanzeiger (Federal German Gazette). They can be viewed at www.bundesanzeiger.de.

Responsibility statement

To the best of our knowledge and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and earnings position of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Heidenheim an der Brenz, November 29, 2021

The Board of Management of Voith Management GmbH

Dr. Toralf Haag
Egon Krätschmer
Dr. Stefan Kampmann
Andreas Endters
Uwe Wehnhardt
Cornelius Weitzmann

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This annual report is also available in German. Both versions, as well as other information, can be downloaded at www.voith.com.

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